<u>AS THE WORLD BURNS: MARKETPLACES AND CENTRAL BANKS</u>
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"To every thing there is a season, and a time to every purpose under the heaven." Ecclesiastes, Chapter 3, verse 1 (King James Version)

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<u>OVERVIEW AND CONCLUSION</u>

To spark and sustain the worldwide economic recovery that began around first half 2009, the Federal Reserve Board and other major central banks warmly embraced highly accommodative monetary policies such as yield repression and money printing (quantitative easing). Who would want to repeat the horrors of the hellish worldwide economic disaster that erupted in 2007 and worsened dramatically after mid-year 2008? Therefore, often in recent years, after significant hints of feeble growth (or recession) or insufficient inflation (or signs of that evil, deflation) appeared, these high priests of the economic system offered further rhetoric or additional (or new) action to accomplish their aims and restore confidence. Such central banking efforts often succeeded. In any case, financial congregations (especially in American and other stock marketplaces) generally loudly hoped for, fervently encouraged, and joyfully praised such central bank rescue efforts.

However, around mid-2015, advanced nation stock benchmarks such as the S+P 500 peaked. Moreover, despite central bank wordplay and vigorous policy action, bear moves in these stock domains have persisted alongside renewed signs of economic weakness and "too low" inflation. Ongoing collapses in emerging marketplace stocks "in general", the major bear move in commodities in general, and falling yields in the 10 year United States Treasury note accompanied tumbles in the S+P 500 and other advanced nation equities. The major bull move in the broad, real trade-weighted US dollar, which began in July 2011, has played a key role in these intertwined trends.

In the past few weeks, key global central banks once again preached sermons or engaged in actions aimed not only at creating sufficient inflation (defeating deflation) and ensuring sustained economic recovery. Stock marketplaces initially ascended higher after these recent efforts (recall their lows around January 20, 2016), and the US dollar weakened somewhat. The Federal Reserve Board and other guardian angels probably did not want the S+P 500 and related stock marketplaces to crash under their January 2016 lows. In addition, they probably did not want the United States dollar bull move to extend much (if at all) beyond its January 2016 high.

However, and although not much time has passed since these recent ardent central bank efforts, the S+P 500 and other stock landmarks have resumed their slumps. Ominously, many stock marketplaces have fallen under their August/September 2015 lows. In addition, the dollar still remains strong, commodities weak (despite talk about and hopes for OPEC petroleum production cuts), and US government yields (in a flight to quality) depressed. This vista warns that the Fed and other revered central banks are finding it more and more difficult to accomplish their various policy aims. It suggests that people (including devoted investors in US stocks) increasingly are losing faith in the ability of central banks to produce desirable outcomes.

Although it is a difficult marketplace call, these ongoing and interwoven marketplace trends probably will continue for a while longer. Admittedly, if these marketplace patterns persist and especially if they extend, watchers should beware of even more dramatic (and perhaps coordinated) central bank rescue action.

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For additional currency, stock, interest rate, and commodity marketplace analysis, see essays such as "The Curtain Rises: 2016 Marketplace Theaters" (1/4/16), "Japanese Yen: Currency Adventures (2007-09 Revisited)" (1/14/16), "US Natural Gas" Caught in the Middle" (especially pp2-3), "America: A House Divided" (12/7/15), "Two-Stepping: US Government Securities" (12/1/16), "Commodities: Captivating Audiences" (10/12/15), and "Déjà Vu (Encore): US Marketplace History" (10/4/15).

MARKETPLACE HANDWRITING

The Old Testament Book of Daniel (chapter 5, verse 5) tells the story regarding the interpretation of mysterious handwriting on a wall. Diverse marketplace signs and actions in Wall Street and related fields inspire all-star economists, Wall Street prophets, the financial media, Main Street dwellers, and packs of politicians to interpret and predict.

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The various stock, interest rate, currency, and commodity arenas do not necessarily travel in the same direction or in the same fashion. History also reveals that apparent relationships between marketplaces do not necessarily endure; past patterns are not destiny. Marketplace wizards differ in their perspectives, arguments, and conclusions regarding these connections and trend assessments regarding them, including issues of convergence and divergence (lead/lag).

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The broad real trade-weighted dollar ("TWD"; Federal Reserve Board, H.10; monthly average), commodities "in general", many key interest rate benchmarks (such as the 10 year US Treasury note), and stock marketplaces around the globe increasingly have been trading together in recent months. The MSCI Emerging Stock Marketplace Index (from Morgan Stanley; "MXEF") is a key yardstick for emerging marketplace stocks "in general". Petroleum is a huge section of the broad Goldman Sachs Commodity Index.

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In spring 2011, commodities and emerging marketplace stocks ("in general") commenced their interrelated bear trends. The broad real TWD's major bull move, which began in July 2011, intertwined with those bear moves. The US dollar's major bull march has been long and fierce. From its July 2011 major low around 80.5 to the recent January 2016 high at 101.2, the broad real trade-weighted dollar has climbed 25.8 percent. Commodities accelerated their mournful decline from mid-2014's interim highs (broad GSCI in June, Bloomberg Commodity Index in April). The MXEF's renewed slump from its early September 2014 interim high followed those in commodities by a few months. Underscore the TWD's substantial ascent above its June 2012 elevation after September 2014.

	Broad GSCI	**Bloomberg Comm. Index**	**Emerging Market Stocks MXEF**	**US Dollar ("TWD")**
Peak 2011	762 (4/11 and 5/2/11)	175.7 (4/25/11)	1212 (4/27/11)	Major low 80.5 July 2011

Recent High	673 (6/23/14)	138.7 (4/29/14)	1104 (9/4/14)	86.6 in September 2014 moved over 86.2, June 2012's interim ceiling
Recent Low	268 (1/20/16)	72.3 (1/20/16)	687 (1/21/16)	101.2 (January 2016)
Percent Fall From 2011 High	**64.8**	**58.9**	**43.3**	**TWD rally 25.8pc since July 2011 bottom**
Percent Fall From 2014 High	**60.2**	**47.9**	**37.8**	**TWD rally 16.9pc since September 2014**

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In mid-year 2015, after a bountiful and glorious rally lasting several years, OECD (advanced nation) stock marketplaces such as the S+P 500 joined in the bear move of commodities and emerging marketplace stocks. The US dollar's sharp climb from its September 2014 level links closely with these bearish commodity and stock pilgrimages.

Worldwide equities in general currently are "trading together". The similar timing of important stock marketplace lows in late August/September 2015 and again in January 2016 underscores the pattern revealed after late spring 2015.

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The bearish pattern in numerous "commodity currencies" (Australia, Brazil, Canada, Russia, South Africa, and others) alongside TWD strength (and emerging stock marketplace downtrends) did not merely confirm the TWD bull trend. It also emphasized the likelihood of further slowing of global real GDP. Efforts by China in recent months to depreciate the renminbi underline the slowdown in that nation and elsewhere.

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US STOCKS: THE END OF THE HEAVENLY BULL MOVE

	S+P 500	**Dow Jones Industrial Avg**	**Nasdaq Composite**	**Wilshire 5000**	**Apple**
Recent High	2135 (5/20/15)	18351 (5/19/15)	5232 (7/20/15)	22537 (6/22/15)	134.54 (4/28)
Recent Low	1812 (1/20/16)	15370 (8/24/15)	4213 (2/8/16)	18550 (1/20/16)	92.00 (8/24)
Percent Fall	**15.1pc**	**16.2**	**19.5**	**17.7**	**31.6**

The interim low in the broad nominal trade-weighted dollar (which has daily data, unlike the broad real TWD) occurred 5/15/15 at 112.8, shortly before the S+P 500's May 2015 summit.

Significantly, the S+P 500 has ventured beneath the minor lows attained 8/24/15 (1867) and 9/29/15 (1872). Even though the S+P 500 settled at 2073 on 12/16/15 (the day the Fed raised the Funds rate), it subsequently withered. Though it jumped from its 1/20/16 low up to 1947 on 2/1/16, it thereafter deteriorated and is now challenging January 2016's trough. The DJIA's trough remains August 2015's, but 1/20/16's 15451 neighbors it. Nasdaq's 8/24/15 low at 4292 was challenged by 1/20/16's low at 4313; today's 4230 depth broke it. Apple's August low is still intact, but 92.4 on 1/28/16 challenged it. The Wilshire 500 pierced 8/25/15's 19717 interim low. In emerging marketplace stocks, the MXEF made minor lows on 8/24/15 at 763 and 770 on 9/29/15.

Note other recent S+P 500 highs close to its May 2015 summit: 6/22/15's 2130, 7/20/15 at 2133 (collapsing from 2103 on 8/18/15), 11/3/15's 2116 (MXEF minor high 11/4/15 at 873), and 2104 on 12/2/15. The broad real TWD steadily climbed from May 2015's 93.3 (having dipped slightly from March 2015's 94.8), with the ascent from July 2015's 95.7 associated with price declines from the last S+P 500 tops on 7/20/15 and 8/18/15.

The high in the nominal TWD is 126.2 on 1/20/16 (daily data available through 1/29/16). Though the TWD probably depreciated slightly after 1/20/16, in the context of its long run bull trend it still remains strong.

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DARK TIMES, FOREIGN STOCK DECLINES

The SXXP, DAX, FTSE, SPTSX, and Nikkei represent advanced economies. The SXXP is the STOXX Europe 600 European Stocks Index. SPTSX is Canada's S+P/Toronto Stock Exchange Composite Index. China's widely-watched Shanghai Composite stock exchange often influences stock trends in important advanced nations.

	Europe 600 SXXP	**German DAX**	**UK FTSE**	**Canada SPTSX**	**Japan Nikkei**
Recent High	415.2 (4/15/15)	12391 (4/10/15)	7123 (4/27/15)	15685 (9/3/14)	20953 (6/24/15)
Recent Low	313.2 (2/8/16)	8938 (2/8/16)	5640 (1/20/16)	11531 (1/20/16)	16017 (1/21/16)
Percent Fall	**24.6**	**27.9**	**20.8**	**26.5**	**23.6**

	China Shanghai Composite
Recent High	5178 (6/12/15)
Recent Low	2638 (1/27/16)
Percent Fall	**49.1**

Note the similar timing of these 2015 highs, including their similarity to those in the S+P 500 and other American weathervanes. Canada's 2014 pinnacle fits that of emerging stock marketplaces (MXEF).

And movements in these key global stock arenas have been rather similar. For example, trends in the SXXP (Stoxx 600 European stock index) generally resemble those in the S+P 500. The SXXP touched its initial 332.0 low on 8/24/15, with a nearby second one 9/29/15 at 335.4. The SXXP high since then is 12/3/15's 387.4. The S+P 500's high since its 9/29/15 low is 11/3/15's 2116 (paralleling MXEF's 11/4/15 one), then a lower high at 12/2/15 at 2104. The SXXP has fallen beneath its 1/20/16 low at 320.5. The Nikkei high since its 16901 low on 9/29/15 is 12/2/15's

20012; compare the timing with the S+P 500's minor high that day. The S+P 500's second low, 9/29/15's 1872, occurred alongside the Nikkei's 9/29/15 bottom.

Recently, they all broke beneath their late August 2015 interim lows. This underlines the growing inability of central banks around the world to achieve their policy aims. Recall SXXP's 332.0 on 8/24/15, DAX 8/24/15's 9338, UK FTSE's 8/24/15 5768, Canada's 8/24/15 12705, and Japan's 8/26/15 17714.

Recently, despite central banking hymns and actions, prices in the US and these various related global stock marketplaces have not been resurrected.

The explosive rally in the Shanghai Composite since its 8/26/15 low at 2851 , though remarkable (high was 3685 on 12/23/15, not long after minor tops in early December in the S+P 500 and SXXP), faded as other stock marketplace tumbled lower and China's GDP expansion rate ebbed.

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As the worldwide financial crisis accelerated in 2008, the US dollar and Yen both climbed on a broad real trade-weighted (effective exchange rate) basis. During that terrible economic downturn, the Yen rallied in its cross rate versus the dollar. What about in more recent times? The Yen's effective exchange rate in recent months bottomed and began to move upward. Moreover, the Yen also rallied further against the US dollar. Its 6/5/15 low at Y125.9 occurred close in time to various stock marketplace peaks and the 6/11/15 yield high in the US Treasury note. The Yen's has just broken through recent highs (8/24/15's 116.2 and Y116.0 on 1/20/16), reaching about Y115.2 on 2/8/16. A 10 percent Yen rally from its Y125.9 low against the dollar gives Y113.3.

FLIGHTS TO QUALITY: THE US TREASURY MARKETPLACE

The US 10 year government note yield established an important high with 6/11/15's 2.50 percent. The German's high was 6/10/15 at 1.06pc. Compare the time of highs in the US and overseas stock marketplaces. The UST's yield slump represented a warning sign to equity bulls.

After the Federal Reserve hiked rates a bit in December 2015, thus suggesting its optimism regarding the strength of the US (and global) economy, the UST 10 year yield only rose to 2.32pc on 12/30/15 before dismally stumbling lower. The US two year yield has retreated since its 1.10pc of 12/29/15 to under 70 basis points. This underlines widespread economic slowdowns (weakness) in the US and elsewhere, as well as the growing inability of supposed central bank saviors to genuinely repair the problem (keep accomplishing their policy goals). Note that this pattern of declining US yields in recent weeks has occurred alongside the easing talk/actions by the European Central Bank and Bank of Japan.

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However, in recent months, yields for lower grade corporates (and weaker sovereigns) have increased. This, and the associated widening of credit spreads, warns of a wilderness of current and future economic troubles.

Many governments around the globe have substantial debts. "Bad Loans Worth Trillions Haunt Global Economy; Cleanup May Take Years", headlines the NYTimes (2/4/16, pA1). And how many debts have been hidden or masked by sovereigns and corporations? The Financial Times on its front page (1/16/16) declares: "Alarm raised over $800bn of [emerging market] camouflaged sovereign debt".

RECENT CENTRAL BANK PREACHING

"Every picture tells a story, don't it?" asks the singer Rod Stewart.

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Over the past several years, widely-adored central banks such as the Federal Reserve, European Central Bank, Bank of England, and Bank of Japan have proclaimed gospels regarding their policies, duties, procedures, and intentions. The doctrines and actions of these guardians are not always identical, but they often closely resemble one another.

Therefore, they always will follow their legislative mandate (as they interpret it). They will do what they must, as well as whatever it takes, using all the instruments available, to achieve their goals. Sustained yield repression and even massive rounds of money printing (quantitative easing) are acceptable (even sometimes necessary and praiseworthy) practices. Even negative yields may be fine in some circumstances. Around two percent inflation indeed is a good target. Too low inflation is bad, and deflation is very bad. Recessions are very bad as well. Too low GDP growth and too high unemployment also are bad. The central bank shepherds are data dependent (after all, what else could they look at), yet they generously will offer financial flocks (including investors) forward guidance.

Many marketplace participants, especially in advanced nation stock realms such as the S+P 500, are addicted to the Fed's easy money policies. Fractured (weak) political leadership in America and many other regions encourages this reliance.

In the United States and other stock marketplaces, most observers label bull moves in stocks as "good" and bear ones as "bad". In various proverbs, stock "investment" generally is praised as good. In any case, the church of stock investors (owners) generally laments declines in equity prices. Hence they often pressure central banks and politicians to stop dreadful price declines. Thus many (particularly stock owners fearing losses or already crucified by bear moves) beseech the Fed (and other central banks) to rescue "the situation" (in other words, them).

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The Fed and its allies probably do not want the S+P 500 and related stock marketplaces to crash under their mid-January/early February 2016 lows. They also probably do not want the dollar's bull move to extend much (if at all) beyond its January 2016 high.

A list of very recent notable central bank comments and actions reveals the continued determination of these institutions to fight hard to achieve their policy goals. Yet despite all the central banking talk and action occurring roughly around the time of the S+P 500's 1/20/16 low, the S+P 500 (and other stock marketplaces) have not been able to sustain advances.

Thus in this context, and as worries about global expansion increase, the renewed decline in US and related stock marketplaces, drop in UST yields, and the continued strong broad real trade-weighted dollar (do not forget the Japanese Yen rally) warn that the central bankers currently are having great difficulty in accomplishing their laudable aims. And despite conjectures about oil output cuts from OPEC, petroleum prices in recent days have also slipped toward their mid-January lows. The spike in gold prices to around $1200 in part warns of increasing concern regarding the strength of the worldwide financial system.

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The Fed raised the Federal Funds rate on 12/16/15. Didn't that suggest optimism for a US (and to some extent a global) recovery? Yet the S+P 500 fell from its 12/16/15 perch at 2073 to around 1879 on 1/14/16. Might talk of caution regarding future Fed rate rises slow stock marketplace declines? Out rushed James Bullard, the President of the St. Louis Fed. His 1/14/16 rhetoric aimed to support US (and perhaps other) stocks ("Oil Prices, Inflation and U.S. Monetary Policy").

The International Monetary Fund has been a diligent apostle of easy money policies. In its influential "World Economic Outlook" (1/19/16), this guru declared: "In advanced economies, where inflation rates are still below central banks' targets, accommodative monetary policy remains essential." Nevertheless, the S+P 500 eroded to its 1/20/12 low at 1812.

The Bank of Japan has long had a lax monetary policy. On 1/29/16, the Bank of Japan stunned many marketplace watchers with its introduction of negative interest rates ("Quantitative and Qualitative Monetary Easing with a Negative Interest Rate"). The Yen weakened and the Nikkei rallied. The S+P 500 managed to bounce up to 1947 on 2/1/16; however, it plummeted thereafter.

Although the Fed quit money printing, not only the Bank of Japan, but also the European Central Bank, took up the slack. And in his speech "Global and domestic inflation" (12/4/15), the European Central Bank stressed his institution's determination to achieve its policy objectives. This followed the ECB's 12/3/15 decision, in which it eased further. In its 1/21/16 meeting (including the Q&A), the ECB suggested the potential for even more easing. Note the timing coincidence with the S+P 500's 1/20/16 low.

More recently (and after the S+P 500's early February 2016 high), the ECB evangelist spoke anew. "ECB chief vows to beat low inflation" headlines the Financial Times (2/5/16, p2), quoting President Draghi's claim to the Bundesbank that "'The risks of acting too late outweigh the risks of acting too early.'"

Yet underline the stock slumps since the S+P 500's 1947 interim top on 2/1/16. Neither the Bank of Japan nor the ECB "combined" have stopped equity bear moves.

The Bank of England's "Monetary Policy Summary" (2/4/16) also indicated no hurry to tighten monetary policy, as did Governor Carney's speech, "The turn of the year" (1/19/16).

Recent Fed comments in early February likewise have not halted the S+P 500 (or other equity) declines. In "Recent Monetary Policy", Fed Vice Chairman Stanley Fischer (remarks to Council on Foreign Relations; 2/1/16), concerned about possible persistent tightening of financial conditions, suggested the potential for delays in further Fed rate boosts. Bloomberg's website headlines "Fed Officials [Fed Governor Brainard and NY Fed President Dudley] Urge Patience to Gauge Turmoil's Impact on Economy" (2/3/16).

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Previous essays discussed the Federal Reserve Board's effort to slow, halt, or reverse marketplace declines in the S+P 500. For example, see "Playing Percentages: Stock Marketplace Games" (7/13/15). The Fed's preferred method to stop downward US stock moves of around ten percent from an important summit (such as the S+P 500's May 2015 one) is talk (wordplay) rather than action. For the United States, sustained dives in the S+P 500 of around 20 percent (or more) increase the odds of Fed action (perhaps even renewed quantitative easing or a reversal of its December 2015 rate hike), particularly if the international economic situation is deteriorating substantially.

The next scheduled Fed meetings are 3/15-16/16, 4/26-27/16 and 6/14-15/16 (not in February 2016). Federal Reserve Chairman Yellen testifies on 2/10/16 before the House Financial Services Committee.

Some marketplace mystics monitor the calendar timing of previous key marketplace peaks and bottoms. Marketplace history (including price and time patterns) of course need not repeat itself, either in part or at all. Everyone knows that numerous factors influence marketplace viewpoints, price levels, and trend movements and changes. Nevertheless, keep in mind the time of the S+P 500's major low at 3/6/09 S+P 500 major low at 667. In its current bloody bear move, the broad GSCI broke decisively under its 2008-09 major bottom at 306. However, the calendar timing low to date in the bear move, January 2016's trough, occurred midway between the calendar months for the GSCI's 2008-09 major low (double bottom 12/24/08 at 308 alongside 2/19/09 at 306). The February 2009 GSCI trough, occurred not long before the March 2009 bottom in the S+P 500.

A major high in the broad real trade-weighted US dollar (TWD) occurred in March 2009 at 96.8 (monthly average). A few other major TWD peaks occurred during first quarter. Recall March 1985's 128.4 and February 2012's 112.8. Also, as currencies shifted to floating exchange rates, the TWD apparently made a high around first quarter 1973.

A BRIEF EPISTLE ON PETROLEUM

Worldwide OECD industry and United States petroleum stocks are very lofty and at current production levels likely to remain so. Many (especially non-OPEC oil producers and investors in petroleum stocks) pray that OPEC will reduce its output. Bearish petroleum price trends increasingly have raised concerns by central bankers around the globe. They fear that the sustained massive oil downtrend endangers their quest to ensure sufficient overall inflation (and adequate economic growth). Is crude oil under 30 dollars a barrel "irrational"? The chairman of Saudi Arabia's state oil company, Aramco said around the time crude oil and the S+P 500 attained their January 2016 lows: "'The market has overshot on the low side and it is inevitable that it will start turning up'", predicting higher prices by the end of the year." (Financial Times, 1/22/16, p20).

Key crude oil marketplaces have in the past few weeks displayed similar behavior. NYMEX crude oil (nearest futures continuation) made a low at $26.19 on 1/20/16. It advanced to $34.82 on 1/28/16 and then retreated. ICE Brent/North Sea crude oil's (nearest futures) low occurred $27.10 on 1/20/16. It climbed to $36.25 on 2/1/16 and has since slipped. The OPEC crude oil basket's trough occurred $22.48 on 1/20/16, the marketplace rallied to $29.90 on 2/4/16.

Will OPEC reach agreement either on its own, or with non-OPEC nations such as Russia and Mexico, to boost prices? Might OPEC hold an emergency meeting? To what extent, if at all, would a sustained rally in petroleum prices help to rally stock marketplaces? In any event, many key producers indeed have been conversing recently. Headlines proclaimed "Six Oil Producers Agree on Emergency Meeting (Bloomberg, 2/3/16). However, the headline exaggerates the outcome of the discussions. Also, talks between Saudi Arabia and Venezuela occurred (Reuters, 2/7/16).

Yet so far, neither OPEC in general nor the Saudis (nor the Russians) have agreed to an official emergency meeting or crude oil output cuts. The next planned OPEC gathering is 6/2/16. OPEC (and especially Saudi Arabia) remains determined to capture market share and induce output cutbacks by high-cost oil producers around the world (including some American and Canadian ones). Surely the Saudis and their allies are displeased by the recent US decision to permit widespread crude oil exports. Also, keep in mind the different viewpoints of the Saudis and Iranians.

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