MACRO INTELLIGENCE REPORT

September 2, 2016

Market Overview: Ravel's Bolero

In music a crescendo consists of a quickening tempo and loudening tone; a repetitive buildup that leads to climax and then…. Nothing.

Maurice Ravel's Bolero is, in your author's esteemed opinion, one of the best crescendos in music. Second only to Led Zeppelin's Kashmir, of course.

I enjoy how crescendos can lull listeners into a suspended belief that the music will continue on and on. And then... at the moment that the song's continuance is its most convincing, it just stops; shattering the illusion of persistence.

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- Updates From Around The World
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- Yuan, NAV Rule, Bond Bubble
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Bolero does this for over 16 minutes. Every verse you think it's gotta be nearly over, but then another one comes, and another one, until you *stop* waiting for the end.

This bull market is the Bolero of bull markets. Everybody keeps waiting for it to end but it keeps going on and on and on and on and on and on and on…. You get the picture.

But like every great crescendo, this one will eventually end. And when it does it will do so in spectacular fashion. Like most things in life, the greater the wait and anticipation, the more magnificent the delivery.

The big question on everybody's mind of course is: when? You want to know the answer? Okay, I'll tell you.

This bull will die the moment everybody stops waiting for it to keel over. Just like Bolero, it'll end once you start believing it could go on forever. That's when.

Goodman, writing under the pseudonym "Adam Smith", wrote in his classic *The Money Game*:

> *We are all at a wonderful party, and by the rules of the game we know that at some point in time the Black Horsemen will burst through the great terrace doors to cut down the revelers; those who leave early may be saved, but the music and wines*

are so seductive that we do not want to leave, but we do ask, 'What time is it? what time is it?' Only none of the clocks have any hands.

Bruce Kovner, the brilliant billionaire and former hedge fund manager, compared this phenomenon to the Heisenberg principle in physics, explaining "*If something is closely observed, the odds are it is going to be altered in the process.*"

So be worried when you notice that others have stopped asking for the time.

As macro traders we need to be untethered to poisonous bull / bear dogmas and simply keep a finger to the wind and an eye on the horizon.

And right now the near-term trajectory looks clear and upwards, with the path paved by continued central bank easing making equities the only game in town.

With that said, the future is approaching fast and is looking ugly. But the market is increasingly focused on the present and won't notice the future until it's too late… I expect that'll be sometime in 2017.

So until then, enjoy the party, have some punch, but not too much… be merry.

A Look Around The World

U.S.

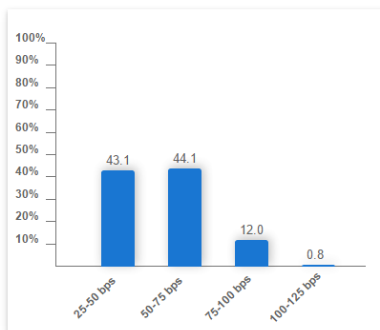
As the Wall St. herd turns its attention back to markets after a long summer, we can expect the "will they, won't they" nonsense to resume, with everyone's eyes on the next FOMC meeting on September 20th and 21st.

The market recently raised its expectations for a rate hike before year's end in response to Yellen's comments given at Jackson Hole last week which were interpreted as being more hawkish.

Fed funds futures are now pricing in one rate hike by year end as the most probable outcome (44.1%).

We don't agree with the market on this one.

Meeting date: Wednesday, 14 Dec 2016

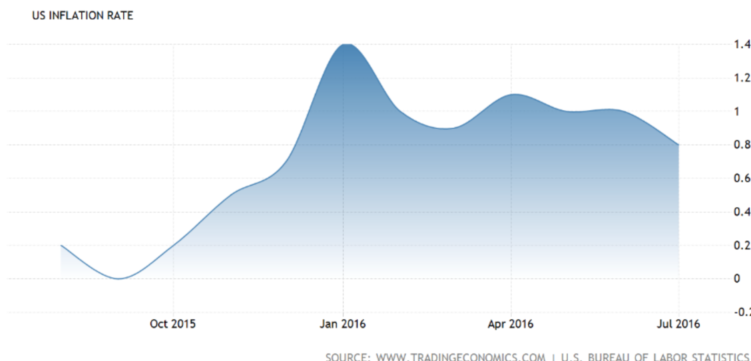


Futures Expiry: December 2016
Futures Price: 99.47

Previous Day
Volume: 12,146
Open Interest: 82,898

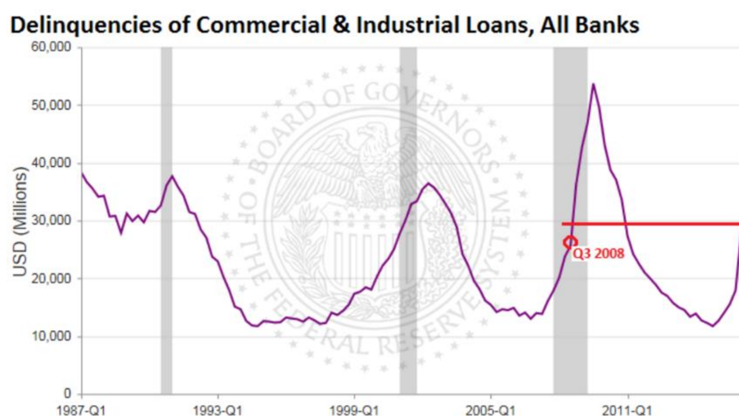
Target Rate (bps)	Current Probability %	Previous Day Probability %
25-50	43.1	46.4
50-75	44.1	42.1
75-100	12.0	10.8
100-125	0.8	0.7

The Jackson Hole speech was another attempt by Yellen to talk down markets in the hopes of stemming excessive risk taking. She, along with much of the FOMC, are uber-liberals. And there's no way in Hades they risk upsetting markets with the presidential elections just a few months away.



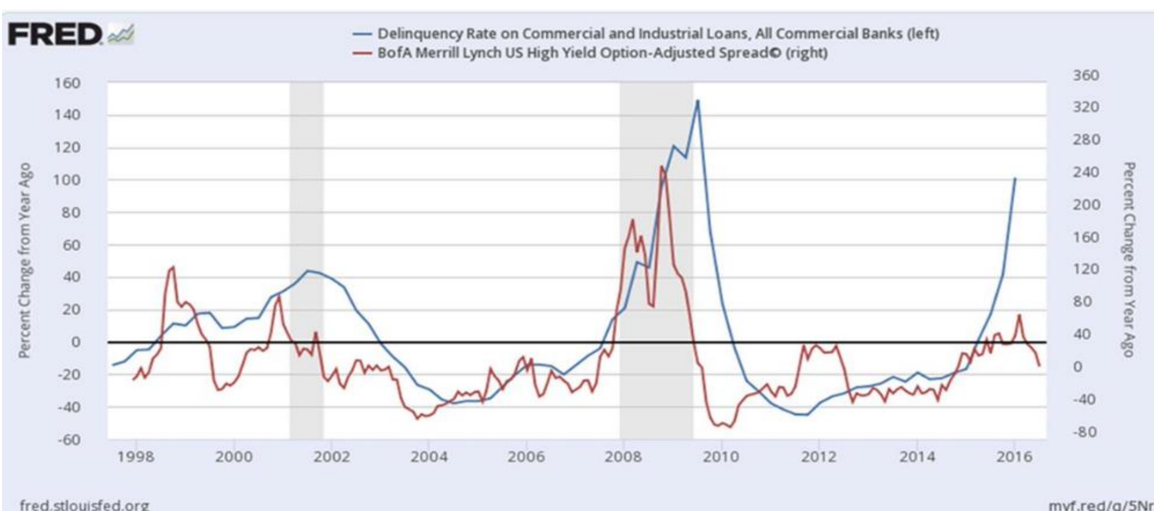
Besides, the data at the moment doesn't support the case for a rate hike. Inflation is still running well below target and GDP has been disappointing.

There's a few bright spots in the consumer spending numbers but there's also some troubling signs in areas of the funding market (ie, increasing delinquencies and charge offs on commercial loans).



The numbers suggest we're in the later stages of a slowly turning credit and business cycle. The labor market is nearing "full" employment which will continue to put pressure on contracting profit margins.

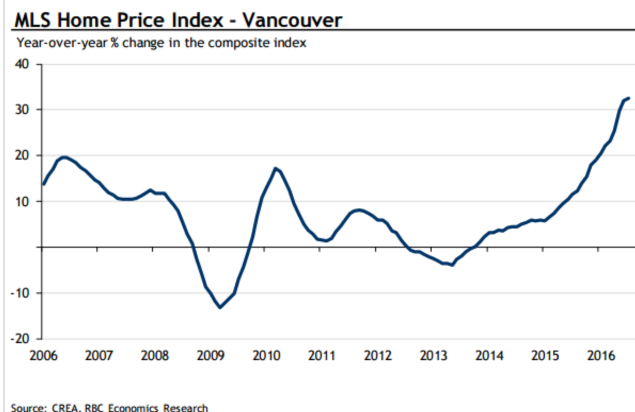
The chart below shows perfectly the growing divergence between the turning credit cycle and sentiment driven speculation in markets. Eventually the spread on high yield bonds will turn higher and properly reflect the deteriorating loan market.



But with Fed policy staying lower for longer and risk taking very much alive and well in markets; stocks should continue to trend higher going into the end of the year. They'll also be benefitting from exiting a long earnings recession, improving their comps going forward by lowering the bar.

Canada

Canada was in free-fall in the beginning of the year. The collapse in the commodities market, specifically oil, sent bank shares and the Canadian dollar crashing. The collapse was reversed by a 180 in Fed policy combined with enormous credit injections from the Chinese. This effectively placed a floor under the commodity market; resulting in a classic v-bottom stick save for Canadian stocks.



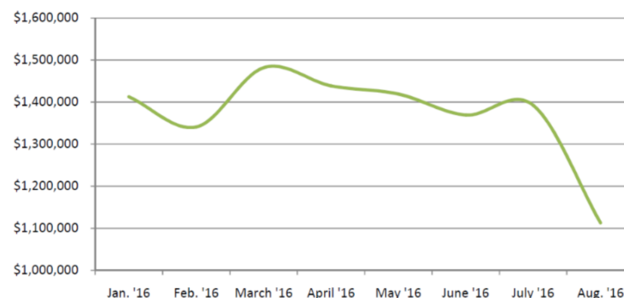
Canada's real estate market is in a bubble. A bubble that in many respects, is worse than the one experienced in the US just eight years ago.

The bubble is being driven by domestic buyers spurred on by low interest rates and a fear of missing out, as well as hot foreign demand.

Chinese money is flooding into hard assets around the world in fear of further devaluation of the yuan and a general distrust for their government. This has resulted in many high priced luxury properties being purchased site unseen and with little price sensitivity.

Home prices in major Canadian cities have vastly outpaced incomes over the last decade. As a result, many Canadians have been priced out of the market and can no longer afford to live where they work. In response to this dilemma, the government imposed a 15% tax

on purchases by foreign nationals in the metro Vancouver area — where the housing bubble is at its worst. The tax looks to be working. Average home prices in Vancouver have plummeted since it was enacted.



But with China still juicing its financial system it's hard to get confident on the short side of Vancouver real estate just yet. The jury is still out on whether this tax is creating a short term correction or full-fledged trend change.

Venezuela

Venezuela is now a failed state in the midst of a complete societal collapse.

When your currency is worth far less than the paper it's printed on, it might be time to rethink your economic policies. The IMF is currently estimating **1600%** inflation next year.

The entire financial system has broken down. You can't buy food. You can't buy medicine. You can't get electricity.

The result has been total chaos. It's become outlaw country with every man for himself. Grocery stores look like something out of a zombie apocalypse flick.

President Maduro's response, in typical socialist fashion, has been to blame "foreign meddlers", enact price controls and nationalize private industry — a sure recipe for success that has worked every time throughout history (thick sarcasm).

The downfall of Venezuela's socialist regime began with the collapse of oil prices in 2014. Venezuela is one of the world's largest oil exporters and oil makes up 96% of their foreign currency earnings. But the country's oil related income has now fallen more than 50% while production has dropped off too, delivering a double whammy.

In response, the Venezuelan government has prioritized creditor payments in order to avoid legal actions by bondholders in international courts. So its solvency is still intact, but at the expense of a starving population.

Expect Venezuela to fully collapse into a black hole sometime next year.

Eurozone

To point out the obvious, the Eurozone is a disaster on its way to becoming a catastrophe. Its problems are many, including:

- Deteriorating demographics across the continent
- An immigration crisis causing flaring tensions
- The failure of a single monetary policy for multiple sovereigns
- An uncompetitive and over-regulated labor market
- A homegrown Islamic terrorism epidemic

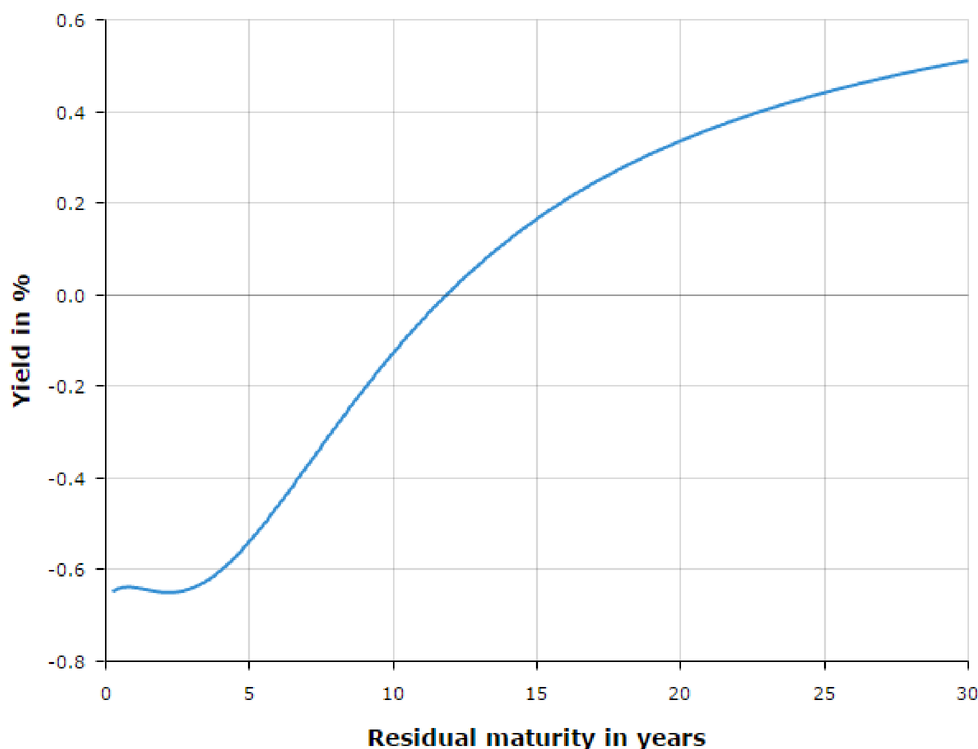
We're of the belief that the EU experiment, as it stands now, will not exist in a decade's time.

But with that said, many EU markets are currently oversold from a strictly technical standpoint. We'll likely get a short-term bounce in the months ahead as EZU continues its pendulum swing within its 8-year channel.

Macro Ops
Target. Deploy. Profit.

One of these days that lower trend line will break and we'll see a final decline before a legitimate Eurozone breakup. But until then we'll continue to watch as central planners, in all their "infinite wisdom", try to hold the ship together.

Draghi's negative interest rate experiment has proven to be lacking. Pictured below is the yield curve for all AAA-rated euro area central government bonds.



You can't make a positive return until you go out to a 10-year duration. That's incredibly stupid.

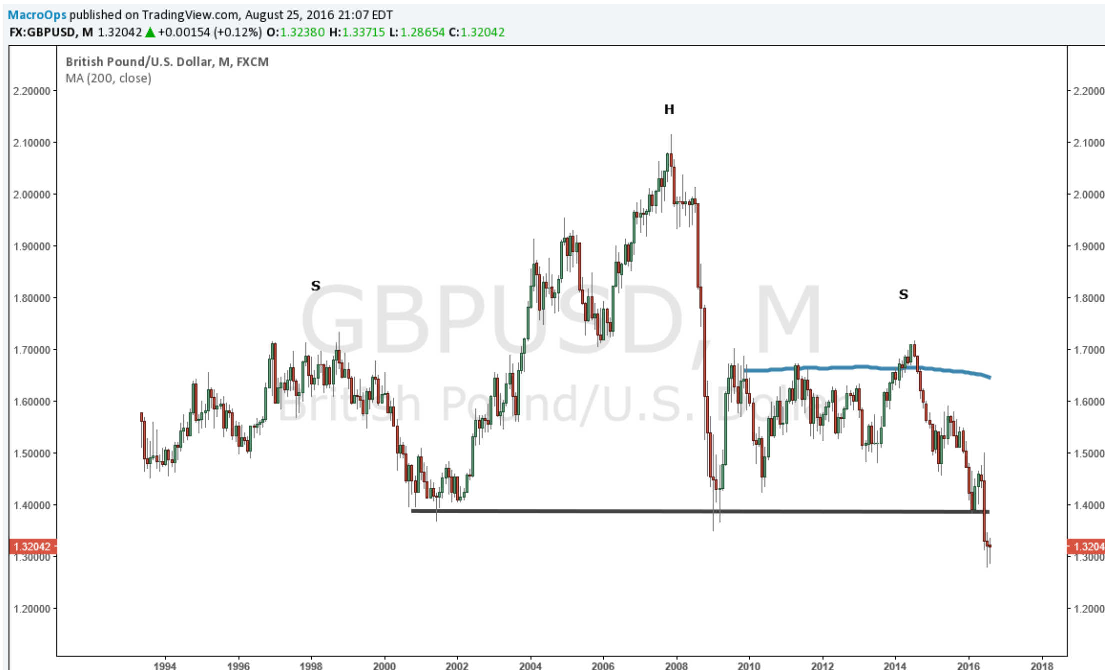
Unfortunately for central planners, negative rates have proven to be not so inflationary, and may actually be deflationary.

Low to negative rates have forced people to save more because they aren't receiving income on their savings. This additional savings means less consumption which leads to falling growth and a lack of inflation. It doesn't take a rocket scientist to understand that simple logic chain, but maybe we're missing something, I don't know.

U.K.

Traders have been watching the post-Brexit situation closely, trying to gauge what it means for financial markets. One of the most talked about moves is the sell-off in the

GBP against the USD. The currency pair has broken a huge support line that goes all the way back to 2000.



A break this large tends to signal more weakness ahead. But as far as the domestic economy goes, reactions have been far more benign than what was originally anticipated.

Following the Brexit vote, investors panicked and sold real estate funds. Managers were forced to freeze withdrawals, sentiment was crushed, and homebuilder stocks plummeted.

This ended up being a sucker move. Homebuilding stocks have now mean reverted back to pre-Brexit levels.

An important result of the Brexit shock was the excuse it provided the BOE to ease. In August they cut interest rates for the first time in 7 years.

The Committee also voted for a package of additional measures, including:

- A new term funding scheme to reinforce the pass-through of the rate cut
- The purchase of up to £10 billion in UK corporate bonds
- And a £60 billion expansion of the asset purchase scheme for UK government bonds, taking the total stock to £435 billion.

The real fallout from Brexit will be seen in the years ahead. And it's the signal it provided to other EU members who are displeased with the current situation that matters the most.

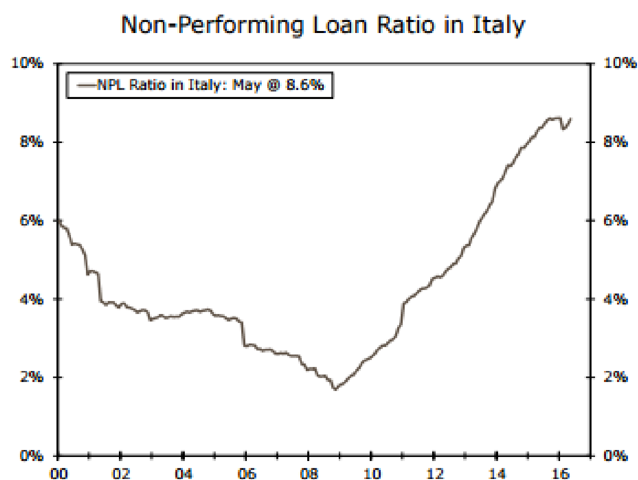
Italy

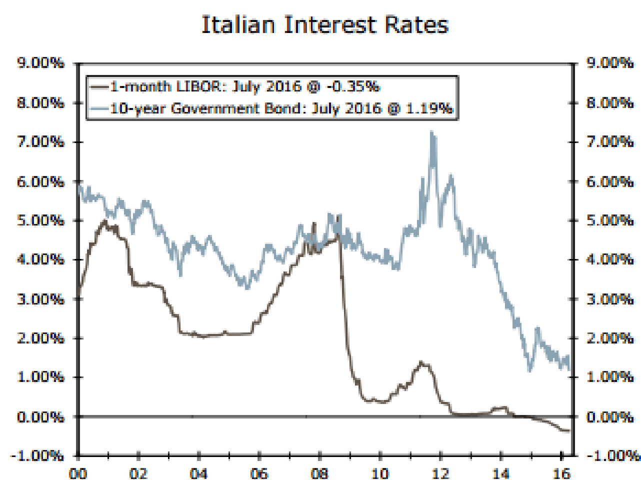
Now that Brexit is out of the way (at least for the time being), investors are moving their attention to Italy. Italy in many ways encapsulates everything that's wrong with Europe. It suffers slow growth due to mountains of bad debt, uncompetitive labor markets, and a constrained fiscal and monetary policy that do not fit what the country needs.

Italy's debt to GDP ratio continues to climb and now sits at 132%. That makes it the second most indebted country in the entire Eurozone after Greece.

Italy has what macro analysts call a "denominator problem" — weak growth inhibits the country's ability to keep up with debt servicing costs. High debt burdens like these make it hard for a country to maneuver in the case of a recession or any type of economic contraction. You can't apply aggressive stimulus when you're broke, and unfortunately for Italy, they are at that point.

Their banks are in dire straits and no one knows what to do. Non-performing loans are skyrocketing despite the low rate environment.





Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities

And stock prices have been massacred. Unicredit, the nation's biggest bank, has been tanking this year and is already down about 60%. But believe it or not, the biggest problem is actually Italy's oldest bank, Banca Monte dei Paschi (BMPS).

It’s down 80% this year and trades for a quarter a share. We’re actually surprised the institution is still around. The bank is the world’s oldest lender and has been lending money for 544 years! The first year of business was in 1472.

Italy is caught in a “damned if you do, damned if don’t” situation. Low rates keep the debt load manageable for the government and are stimulative for the rest of the economy, but they also crush banks’ net interest margins and put the whole system in jeopardy. A higher rate environment would help banks, but may also send the Italian government spiraling into a fresh debt crisis.

Since the sovereign's balance sheet takes precedent over banks, it looks like policy makers have decided to keep rates low while trying to figure out a bank bailout. But this is difficult to do because under new European Union rules, there is a mandatory bail-in of 8% of total liabilities before public capital can be used. This means bondholders have to take a nasty haircut before the government can provide a backstop. The problem is that Italian household retail investors own a third of all bank bonds. If the bail-in occurred, uninformed families would immediately see a reduction in their hard earned savings, for reasons they likely don’t even understand.

Imagine a populous, already struggling, waking up to find their "safe" savings evaporated. Events like these catalyze massive action. And this is exactly what the rest of Europe fears. Italy's populist party, the 5 Star Movement, is already gaining traction. They've called for a referendum on Eurozone membership and something like a bailout with its resultant backlash would just pour gasoline over their push to leave.

The precedent for breaking up has been set with Brexit. And now Italy is next up to the plate. We'll keep a close eye on how policy makers decide to handle the Italian banking crisis.

China

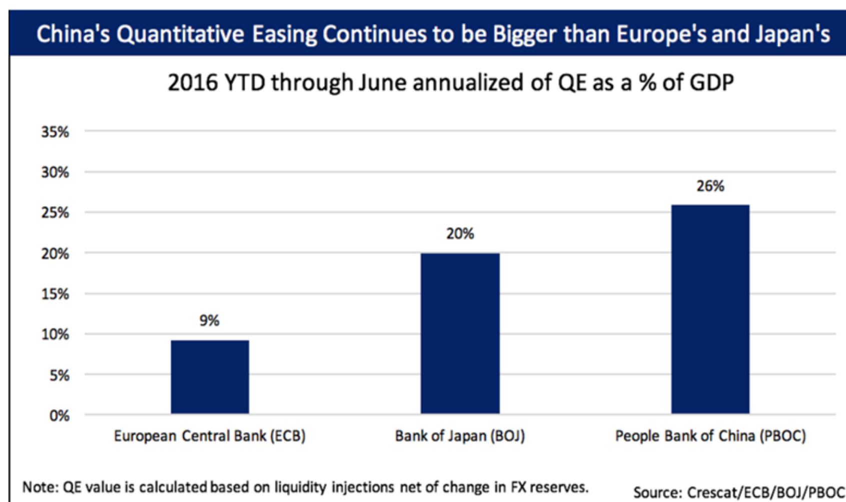
There's one rule you need to know when it comes to China. Never underestimate their ability to keep the party going…

By now you've likely heard every bearish thesis on the Red Dragon there is, including its:

- Difficulty transitioning into a consumer oriented economy
- Bubbles ranging from the real estate market to the stock market
- Swath of nonperforming loans and ridiculous debt levels
- Army of zombie corporations being propped up by the government

Old news but all true.

And yet the train keeps chugging along. Here's why:



$1.6 trillion. That's the amount of cash China has injected into the markets through repos. And this was just in the first half of the year. This puts their QE efforts above both the European Central Bank (ECB) and Bank Of Japan (BOJ).

Moral of the story: No one does QE like China does QE.

These injections are having a (temporary) positive effect too. Just check out the action in the China ETF FXI below:

So yes, fundamentally China is a mess from a long-term standpoint. But in the short-term Chinese equities will likely continue to rise due to the latent effects from these credit injections.

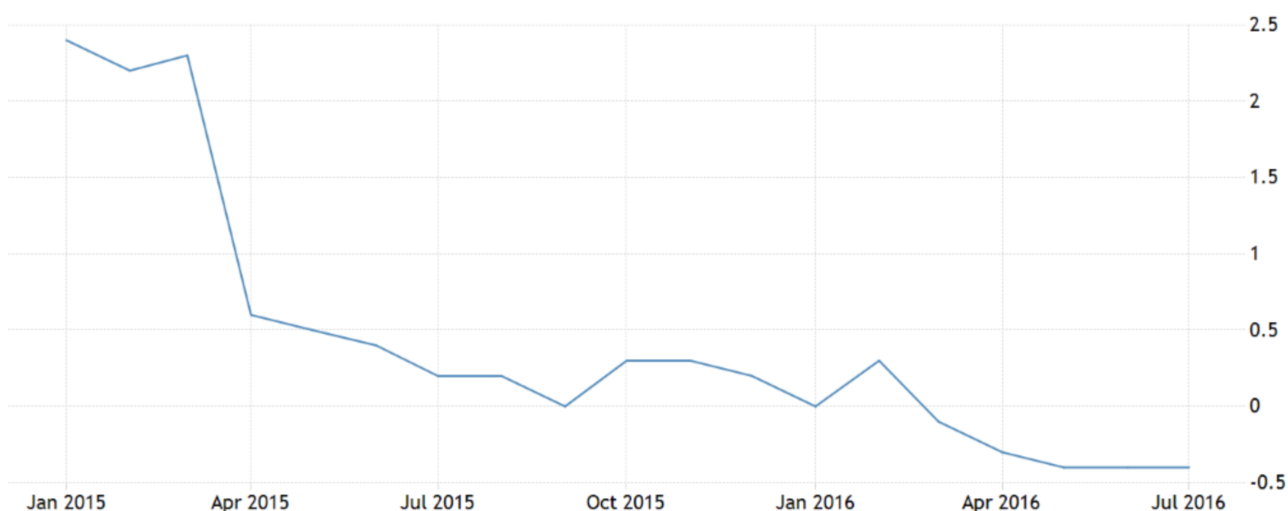
Any trades we take in this market will be on smaller size and more short-term oriented, meaning we'll take our money and run. We have no problem riding the current trend higher, but we're fully aware of the embedded risks — including a massive yuan devaluation, which we'll talk about in a bit.

Japan

The chart above has got to have Mr. Kuroda sweating over at the BOJ. This year the yen has appreciated nearly 15% against the dollar, making the central bank's efforts to hit its 2% inflation target all the more difficult.

This is despite what is arguably the most aggressive central bank meddling in the history of markets. On the equity side for example, Goldman Sachs estimates that the BOJ currently controls 70% of the total market cap of the ETF's they're eligible to buy…

But even as the largest buyers (by far) in each market, they still can't jumpstart their economy. The country's demographic headwinds coupled with their crushing debt load and numerous bloated zombie corporations are proving to be too much. Inflation continues to tumble regardless of the BOJ's actions.



With the failure of the BOJ to provide enough stimulus in their last meeting, all eyes are now on the September 21st meeting, where Kuroda will need to completely trounce market expectations. He basically needs to bring out a stimulus bazooka. That's the only chance he has at reversing the current trend.

Kuroda has promised a large scale review of the BOJ's current monetary policy before the next meeting. But will this review lead to anything new? Or more of the same? We're waiting to see and will sit on our hands in the Japanese markets until then.

India

India's long-term outlook is very bullish when you consider its strong demographics and GDP growth. But in the short-term, there are a number of issues that need to be resolved to keep the country on track.

Fortunately, Reserve Bank of India Governor Raghuram Rajan understood this, and was doing a mighty fine job of managing the country's monetary policy. So when he announced in June he was stepping down from his position, investors became worried.

Rajan was a stellar model of an outspoken, independent-minded central banker who did not bend to the political whims of the rest of the government — not even Prime Minister Modi himself. But Rajan's independence caused friction in the system, which is why many thought he may have been forced out so that he could be replaced by a government crony yes-man.

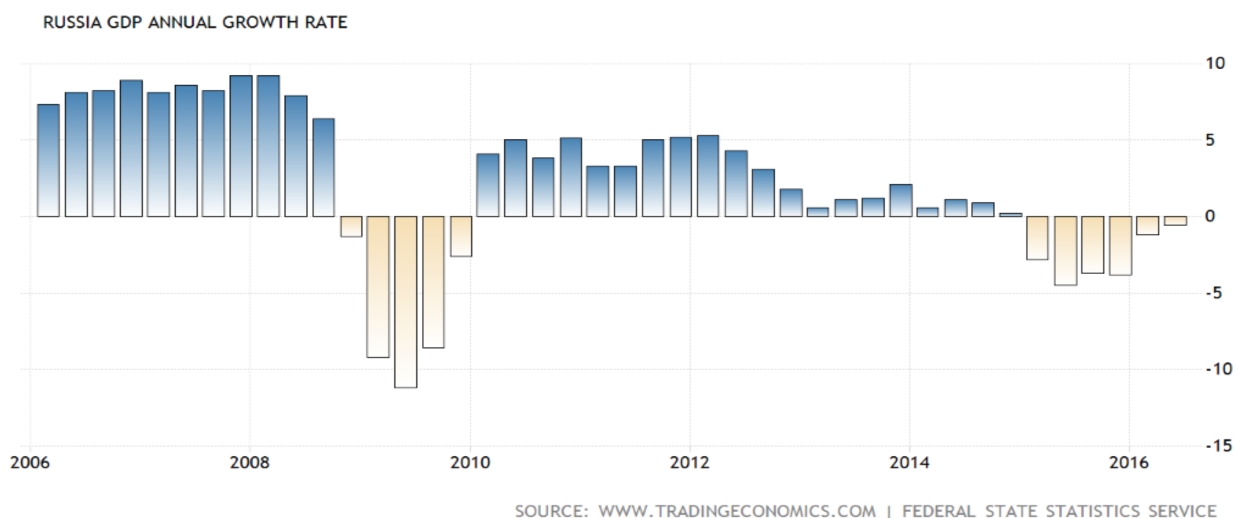
But these fears have subsided with the appointment of Urjit Patel to the Governor's seat.

Patel at the helm (pictured above to the right of Rajan) signals that Rajan's hardline focus on India's long-term economic goals will stay intact even after he leaves. The two main pillars that defined Rajan's term were his hawkish stance on inflation and his fight against the bad banking debts plaguing India's economy. Both of these initiatives are expected to continue in full force with Patel, who worked closely with Rajan to develop these goals as his Deputy Governor.

Russia

If you take a look at the monthly graphs above of RSX, the Russian equity index ETF, and the ruble versus the USD, it may look like things in Russia are stabilizing. Their equity market has been consolidating sideways for about two years, while their currency has come down from recent highs.

And GDP, through in a recession for the last 6 quarters and shrinking another 0.6% in Q2, is starting to show improvement.



In reality though these are only short-term pauses in the long-term trend. You can expect equities to keep falling as the currency collapses.

The problem with Russia is its dependence on oil. When oil prices were high, the economy was in much better shape. And it was during this time that Putin should have transitioned away from oil as much as possible through a host of structural reforms. But nothing was done. So when oil prices collapsed, the Russian economy and the country's internal stability went along with it.

Russia's entire political and economic structure revolves around 2 main factors. One is the strength and unity of its security forces, which requires that a number of oligarchs are kept financially happy, and the second is satisfying the widely dispersed Russian populace, which means numerous wealth transfers to peripheral regions.

Unfortunately, both these tasks become very difficult when the federal budget dries up from a lack of oil revenue. The result has been internal turmoil as Russia begins to split apart. Different factions of oligarchs are now forming as periphery regions lose faith and dependence on Moscow. And as is the case with any nation, when things get bad

internally, the country's leaders will look externally to lay the blame. This is part of the reason we're seeing Putin create so much trouble in Ukraine as he tries to convince his own populace of Russia's power. The goal is to breed nationalism and strengthen unity. We can expect more of this external aggression out of Russia in the years to come as their economy continues to fall apart.

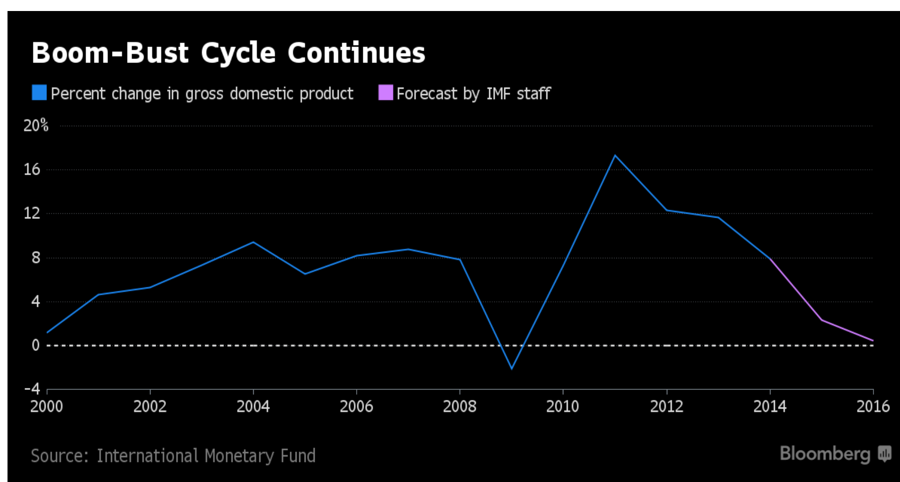
Mongolia

Mongolia's main exports are minerals. They produce iron, coal, copper, and gold, with nearly 90% of it going to China.

Based on that information alone, I'm sure you can imagine the current shape of Mongolia's economy. This country is yet another victim of China's slowdown and its resultant effect on commodity demand.

When China was booming, so was Mongolia. It was one of the fastest growing economies in the world from the crisis bottom in 08' to the commodity super-cycle peak in 2011.

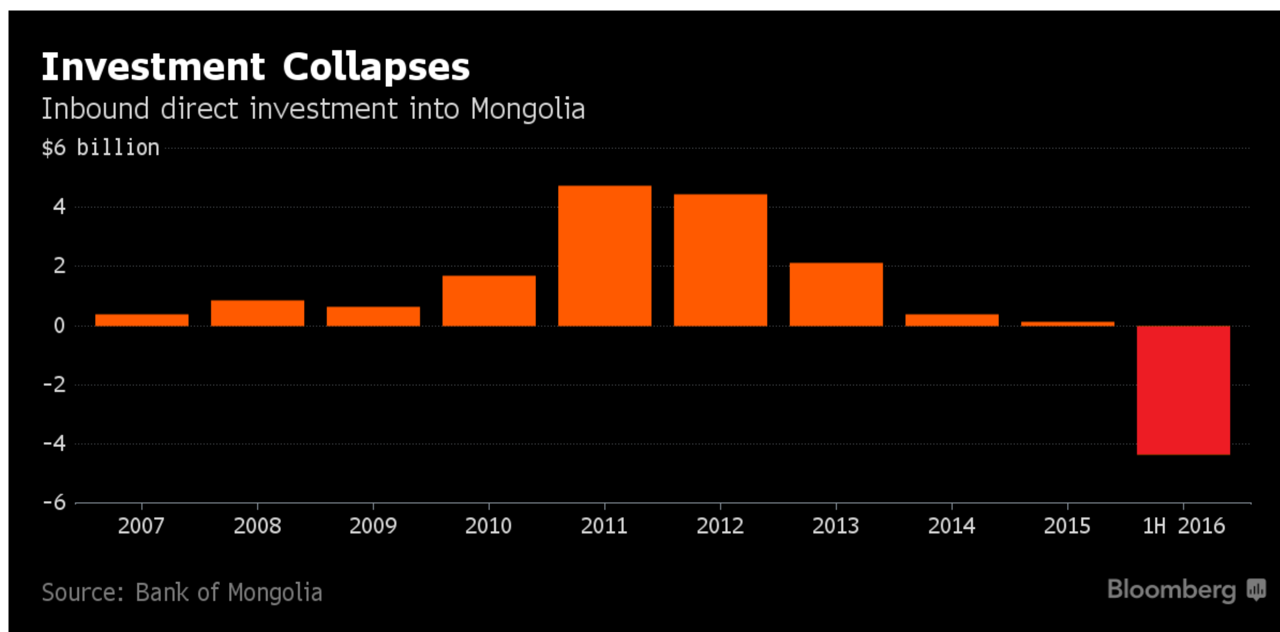
And of course as with any boom, the government decided to go on an infrastructure spending binge, taking on large sums of debt to finance everything. It's the classic story of leveraging up during the good times only to suffer later.



As soon as China started slow in 2011, Mongolia's economy began to implode.

With the collapse came the stoppage of all existing infrastructure projects. This in turn caused overcrowding in a variety of institutions from hospitals to kindergartens. And not only that, but state workers are now facing salary cuts of up to 60% as the government's budget deteriorates. Mongolia's budget deficit through July increased 32.6% over a year ago. And foreign exchange reserves in particular have fallen all the way to $1.3 billion at the end of June, which is a 23% decline from last year.

What's worse is that the ratio of government debt to GDP is projected to reach 78% this year as Mongolia continues to borrow to try and manage their crisis. Numbers like these are causing investors to run.



Direct investment has collapsed, while demand for Mongolia's bonds have also fallen off a cliff.

And nowhere are Mongolia's woes more obvious than in its beaten down currency. The Mongolian tugrik fell over 10% this year alone, making it one of the worst performing in the world. The slide isn't over yet either, even after the central bank hiked rates by a staggering 4.5% this month to 15%.

With this much going against them, it's no surprise that most analysts believe Mongolia will eventually require a bailout from the IMF.

Precious Metals

Global central bank policies and recent USD weakness are the drivers behind the precious metal rally of the last few months.

Here’s a simple question: would you rather park your money into some of the $13 trillion negative yielding sovereign debt, where you’re guaranteed to get less than your principal back or would you rather buy gold and maybe get some appreciation?

So that’s why gold has become such a one-sided trade over the last few months. The problem with investment themes that become accepted wisdom, is that, well, they’re “accepted wisdom” and those don’t generally work out too well.

The chart of gold futures below shows the COT (commitment of traders) numbers in the bottom panel; the blue line denotes speculators and the red line is commercial positioning, and up means long and lower means net short.

The COT report only becomes useful when you see large divergences in positioning between specs and commercials, like the one below. When this happens it usually pays to be on the side of commercials, in this case that means short.

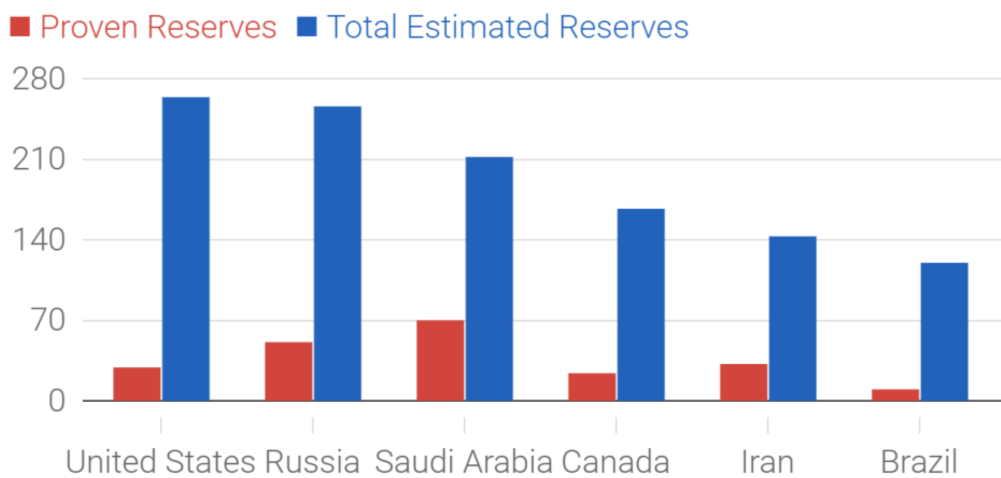
So expect some turbulence in the weeks ahead for precious metals and keep an eye on where the dollar breaks out of its long holding pattern. We're not taking any positions in gold at the moment, its short-term prospects are in our too-hard bucket.

Oil

From the chart above you can see oil forming a head and shoulders bottom. We're bullish on the commodity in the short-term.

But from a purely fundamental standpoint, the oil picture hasn't changed all that much. There's still a supply glut as producers are forced to continue pumping regardless of price, just to service their debt and keep their heads above water.

US oil reserves are at highs not seen since 1929 and are now the largest in the world. China is hitting new records in its diesel exports. And there's a number of other stats I could rattle off on why oil prices should stay low, but you get the gist of it.



This data currently doesn't matter. The oil market is being driven by liquidity, a weak dollar, and shifting sentiment. Until one of these factors dramatically changes, oil will likely stay in its mostly positive short-term trend.

Deep Dive: Colombia

Colombia is a country with baggage.

The mention of this South American destination often conjures up frightening images of narco-terrorism, Pablo Escobar, mounds of white lightening and the birthplace of that singer who wrote that horrendous official World Cup song… tragic.

To be fair, Colombia long deserved the bad rap. It suffered tremendously during the cocaine cowboy decades of the 60s-90s. Here's some stats to paint the picture of just how grim things were (via HBR):

- Over the past 50 years some 220,000 people, 80% of whom were civilians, have been killed.

- More than 6 million people have been internally displaced, a population on par with that of the Syrian refugees.
- Nearly 500,000 women have suffered sexual violence
- 27,000 people have disappeared.
- Land mines have killed or injured more than 11,000 people since 1990, the second-highest number of landmine injuries in the world, after only Afghanistan.
- At their peak in the late 90's, the FARC rebels had roughly 20,000 fighters who carried out kidnappings, bombings, and other atrocious acts against the Colombian government and its people.

Colombia was essentially a real life Dolph Lundgren movie and not of the *Kindergarden Cop 2* variety. The economic impact of this bloody history is incalculable, but it's safe to say it was costly on many levels.

For these reasons, the country has long been one you wouldn't want to invest in with a 10ft pole, not even with your buddy holding.

In addition, the country's economy has been hit hard over the last two years due to the ongoing collapse in commodities. Colombia is the 53rd largest exporter in the world; dealing mostly in crude, petroleum, coal, coffee, and gold. And though exports only account for 16% of GDP; oil provides over half of all export revenue. For every dollar drop in the price of oil, the government loses roughly $200 million in state revenues.

This has put the squeeze on government spending, forcing President Santos to announce a 3% cut to the federal budget as part of his "intelligent austerity" program.

Low oil prices and rising food costs caused by an El Nino-related drought and a multi-month nationwide trucker strike have pushed inflation up to 8.9% in July — the country's highest annual inflation rate since 2000.

In response, the central bank has been forced to raise interest rates and tighten money. Its benchmark rate is now at 7.75%.

Under this poor economic backdrop, the credit rating agency Fitch and Moody's lowered the country's outlook, from stable to negative.

Okay, so now that I've told you all of these depressing details I can finally say that Colombia is a raging **buy**.

Famed billionaire investor Jim Rogers once said *"I just wait until there is money lying in the corner, and all I have to do is go over there and pick it up."*

Colombia is that pile of money and it's in a corner that nobody has looked at in decades… and that's why it's just sitting there waiting for you and me to go pick it up. Let me tell you why.

So everything I described above is bad, negative, horrendous and not what you want to see in an investment prospect. But here's the catch: all of that information is of the past.

Colombia's past is horrible but its future couldn't be brighter. In our opinion it's setting up to be one of biggest growth stories over the coming decade and none of that growth is priced in at the moment.

Remember that 52-year-old narco fueled civil war? A formal cease fire was just declared last week and a final agreement will be signed next month. FARC leader Rodrigo Londono said this to journalists:

> *Never again will parents be burying their sons and daughters killed in the war… All rivalries and grudges will remain in the past.*

The significance of this peace deal cannot be overstated. It's huge…

The civil war affected everything from consumer habits to infrastructure development.

Living under the constant threat of violence shaped Colombian culture, the following being a perfect example of this (via HBR):

> *"It's a culture thing," María Lacouture, the head of government economic development agency ProColombia, told me. "In the social arena, we would go to*

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our friends' [house] to go out, or we'd stay in the house. We'd focus on, how can I develop in my area, in my business?"

And the war separated large swaths of the country, making it nearly impossible to carry out modern infrastructure projects. As a result, Colombia is ranked 103 out of 140 in the Business Environment and Infrastructure index and 130th out of 140 for transportation infrastructure.

Many point to these things as negatives going forward, but we see it as the exact opposite. Look at the following chart showing Colombia's impressive growth relative to its LatAm peers *despite* these difficulties.

While its commodity exporting neighbors have been experiencing contracting GDPs due to falling oil, Colombia has been able to maintain growth under tough external conditions.

In the past decade alone the country has seen per capita incomes more than double and foreign direct investment 10x over the same period.

Now imagine the social and consumer changes that will take place over the next five years with the newly developed peace and growing sense of security. Maybe Colombians stop spending Saturday nights at their friends' houses and instead hit the town to tear up some rugs salsaing while throwing back some Aguardiente.

The renewed peace will drive up tourism — it's my favorite place to visit in South America and I know the US Secret Service loves it there too — and foreign direct investment will also continue to increase.

Now let's circle back to the poor infrastructure. The government has recently embarked on a bold decade long infrastructure build with the aim of creating a nationwide toll road network that connects vast areas of the country long separated by jungle and conflict. They also have an additional $70 billion spending program focused on modernizing other parts of the economy.

This all means increased government spending, which equals more jobs, rising incomes and increased consumer spending. The toll road program alone is expected to reduce transport costs by 28% and raise GDP by 1.5% per annum. And with low public and private debt, the country can afford to open its purse strings a bit and pursue an expansionary fiscal policy.

The country has been blessed with a long established and functioning democracy — especially by South American standards — and has the highest ranking business climate amongst Latin American and Caribbean countries in the World Bank's "Doing Business Report" (wow, great title!).

As Dylan said "the times they are a-changin'" and that couldn't be more true for Colombia. After decades spent in the dark corners of the dangerous frontier markets, it's about to break out onto the world stage as a major player in LatAm politics and global economics.

It's time to walk on over to the corner and scoop up as much Colombia as you can before the others wake up and see what's happening.

Here are our picks for playing the Colombian bull theme:

Pictured below is the Global X MSCI Colombia ETF. The chart has nearly completed a textbook head and shoulder bottoming pattern. The target at 12.57 (a 30% price increase) is just a first target. Once this pattern completes GXG could run all the way to its 200 day moving average and beyond.

Another available play is Grupo Aval (AVAL). AVAL is Colombia's largest financial services company with a controlling stake in four of the country's largest banks; as well as its largest fund manager.

Colombia has one of South America's healthiest financial sectors and its banking is largely oligopolistic; meaning the five largest banks hold over 75% of all banking assets, enjoy close ties to the government, and thus have large moats to protect them from competition.

AVAL enjoys healthy margins and a low NPL (non-performing loan) ratio. So if there's a continued shift in the macro outlook — and I think there will be — the bank's stock should recover to levels last seen in mid-2015.

And then finally there's Ecopetrol S.A., Colombia's largest energy producer and refiner.

This stock is a pure energy play. If oil doesn't rise in the near-term, then I don't care to be in it. But if it does, then I think this advance will likely outpace crude oil's.

EC recently completed an expensive modernization project on its largest refinery (Reficar). The project was plagued by cost overruns and typical Lat-Am corruption and scandal; which led to a 100% cost increase to the tune of $8B. But now all of that's behind it and the company possesses the largest and most efficient refinery in Latin America — making it competitive with the major refineries in the US (where it exports a lot of its product).

With the major one-time capital expenditures out of the way, the company should see improving margins moving forward, bolstered by the better throughput efficiency of the modern refinery.

Investors entering into any of these stocks will be getting in near a secular bottom for Colombia. There's big potential for long-term compounding appreciation in these plays.

Systemic Risks

Yuan Devaluation

The stealth yuan devaluation continues to chug along, but the question now is… when will it really take off?

So far the secret "Shanghai Accords" have held up fairly well with central bankers around the world managing dollar strength against their own currencies. But eventually this agreement will fall apart. And considering the USD's recent strength, we may now be seeing the beginning of this.

As far as the yuan is concerned, it's been steadily depreciating most of the year. Further devaluation could very well be the spark that reignites the Currency Wars and sends the dollar to the moon. A strong dollar will have knock-on effects across the financial sphere, including the destruction of US corporations' overseas profits, which could possibly end the equity bull market, and also the reversal of the commodity recovery, sending prices back into the dumps.

For more information on the yuan devaluation and its effects, read our article here.

New SEC Money Market Regulations

As always, whenever regulators create new laws, there are unintended consequences.

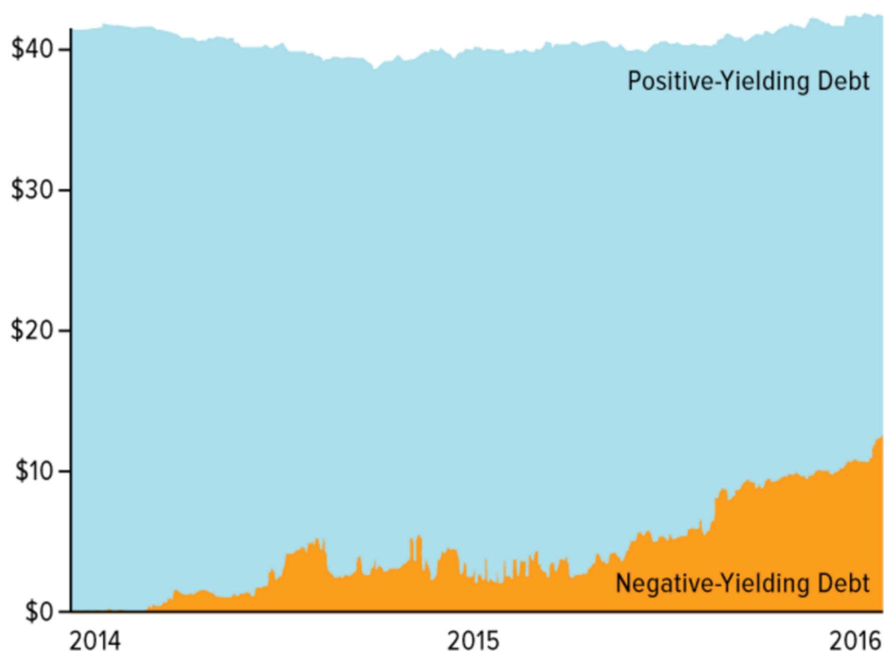
On October 17th new SEC rules come into play that will force prime money market funds to float their NAV's. Now this may benefit the system in terms of transparency, but it's also causing a massive shift in the money market space that may have the following effects:

- Further interest rate easing due to the flood into bond money market funds
- Tightening in lending markets because of the reduction in unsecured funding
- Dollar liquidity problems for foreign banks

The most dangerous issue here is banks struggling to obtain dollars. Lack of dollars could cause massive liquidity problems that may choke up the financial system and cause USD demand to explode. This in turn could send the greenback on the next leg of its bull-run. And as we described above, this is very bearish for global markets.

For further information on the new SEC rules and their effects, read our article here.

Global Bond Market Bubble



There's now $13 trillion in negative yielding debt in the world. Let that marinate a bit.

Central banks have been an effective put option on holding sovereign debt at negative yields. This has led to the bizarre situation where the more these bonds appreciate, the higher the costs of holding them becomes. Holding sovereign debt —- once regarded as the ultimate safe haven — has become a game of "greater fools" of epic proportions.

When a quarter of the world's debt, an asset that sits at the top of the capital structure, is traded according to the same logic as the kids game "hot potato", it may be something you should be concerned about.

To say this will end very poorly is to call the kettle black, and we don't want to insult your intelligence. Needless to say, this dumb money race for appreciation is no different than the rush into real estate appreciation before it, and internet stocks before that.

Goldman Sachs put out an estimate a number of months ago suggesting that if US rates were to rise just 1%, it would result in investors losing over $2 trillion dollars — more than all that was lost in the Great Financial Crisis.

And that was just the US, think about what would happen to the NIRP'd world of Europe and Japan.

Negative bonds are a financial firestorm that'll be unleashed upon markets as soon as the belief in central bank omnipotence falters.

Outlook

	Short Term	Long Term
US Stocks	Bullish	Bearish
US Bonds	Bullish	Bullish
Gold	Bearish	Bullish
Oil	Bullish	Bearish
Nat Gas	Bullish	Bullish
Emerging Markets	Bullish	Bearish
US Junk Debt	Bullish	Bearish
US Dollar	Bearish	Bullish
Canada	Bullish	Bearish
China	Bullish	Bearish
Japan	Bullish	Bearish
Eurozone	Bullish	Bearish
U.K.	Bullish	Bearish
Italy	Bearish	Bearish
Venezuela	Bearish	Bearish
India	Bullish	Bullish
Russia	Bullish	Bearish
Colombia	Bullish	Bullish
Mongolia	Bearish	Bearish

Portfolio Snapshot

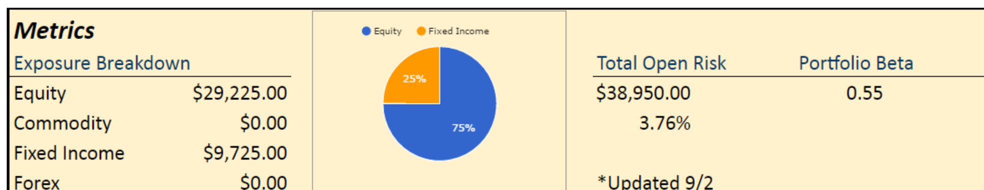
Macro Ops Strategic Portfolio

NAV $1,035,759

Asset Class	Position	Size	Cost Basis	Risk Point	Open Risk	Target 1	Beta (1yr)	Notional
Fixed Income	TLT	2500	132.87	128.98	$9,725.00	146.00	-0.32	$349,500
Equity	Chesapeake (CHK)	14700	5.15	4.30	$12,495.00	8.66	4.7	$89,376
Equity	Novatel (MIFI)	11000	2.10	1.75	$3,850.00	3.00	1.84	$41,140
Equity	Comstock (CRK)	14000	6.60	5.68	$12,880.00	16.50	1.87	$96,880

Metrics

Exposure Breakdown	
Equity	$29,225.00
Commodity	$0.00
Fixed Income	$9,725.00
Forex	$0.00



Total Open Risk	Portfolio Beta
$38,950.00	0.55
3.76%	

*Updated 9/2

Macro Ops Income Portfolio

NAV $1,066,032

Asset Class	Position	Size	Cost Basis	Max Profit
Option	SPX Oct 20 2070 Put	-10	$15.20	$15,200.00
Option	SPX Oct 20 2245 Call	-10	$8.30	$8,300.00
Option	SPX Oct 20 1680 Put	10	$1.40	(Hedge)

Scenario Analysis/Stress Tests

Worst Case	Worst Drawdown
SPX-10%	-$87,000
SPX-20%	-$250,000

**Updated on 9/2

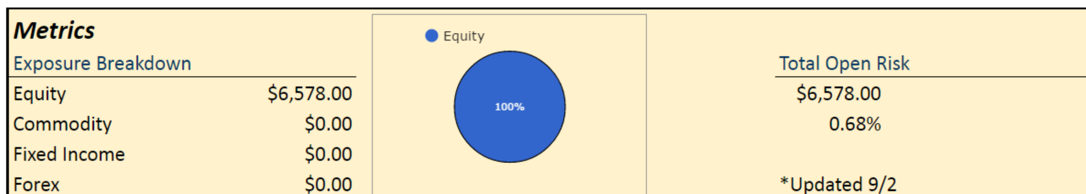
Macro Ops Tactical Portfolio

NAV $970,082.00

Asset Class	Position	Size	Cost Basis	Risk Point	Market Price	Open Risk	Target 1	Notional
Equity	Goldman Sachs (GS)	2,300	169.57	166.39	169.25	$6,578.00	194.80	$389,275

Metrics

Exposure Breakdown	
Equity	$6,578.00
Commodity	$0.00
Fixed Income	$0.00
Forex	$0.00



Total Open Risk
$6,578.00
0.68%

*Updated 9/2

For more information about the Macro Ops Hub email alex@macro-ops.com