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The China Factor & Geopolitics

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POSITION SUMMARY

* Indicates a new position or change in view

MARKET	CYCLE	MEDIUM-TERM *Up to 3 months*
S&P	Extended*	October Correction*
30y Long Bond (price)	Bullish	Neutral*
Brent Oil	Neutral*	Bullish*
Gold	Bullish	Extended
EUR/USD	Neutral	Bearish*
USD/JPY	Potential Top	Corrective Bounce
USD/CNH	Neutral	Rebound*

HIGHLIGHTS

- The 4th quarter of 2024 has the potential to become the most volatile quarter in geopolitics in many years for in the past few weeks alone, we have seen a second assassination attempt on a former US President, Iranian hackers' attempt to interfere in the US election, potential escalation by Russia in the Ukraine war, and rising tensions in the Middle East. With Israel's success in taking out the senior leadership of Hezbollah, it provoked Iran's ballistic missile attack yesterday. The US is involved with defending the West, and Russia, China, North Korea and Iran have formed an alliance as well. We are on the brink of World War III.
- The Chinese government released several measures to support the Chinese economy via monetary and fiscal policy steps. In our view, it will have a positive influence on global financial markets. In particular, China will benefit in the short-term. However, the new measures implemented are not the big bazooka required to rebalance the Chinese economy as we have described in previous reports.
- Commodity markets (base metals in particular) as well as the Chinese and Hong Kong equity markets have been extremely oversold from a long- and medium-term perspective. The Chinese equity rally that has been initiated will likely continue for several months and the positive sentiment may spill over to other markets to a certain degree.
- While all sorts of China trades - from base metals to Chinese equities to Western luxury consumer goods - will rally for a few months from the deep oversold condition they have hit, the impact of the recent interventions will not reverse the slowing pace of the Chinese economy. Do not expect to see higher growth yet.
- The US economy is slowing, but it will not slow to potential recession before Q2 2025 due to the constrained supply of labor.
- Europe is weak and will not benefit from China's support package, as China's imports will not expand.
- Money market rates in the major regions and markets continue to decline, but to a lesser extent than would be necessary to avoid

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economic problems. Hence, the decline of money market rates will continue.

- Sovereign bond yields in the US and Europe remain in a cyclical decline. However, the China stimulus package is reviving hopes for a global economic improvement and "soft landing" that pushes yields temporarily higher for the medium-term. Chinese bond yields have fallen dramatically due to the deflationary condition there and have hit at least a temporary low.
- Among global equity markets, China and to a lesser degree Hong Kong and other China plays have begun a rally that will continue for several months. However, the fundamental backdrop of an improving economy will likely remain absent. It is a rally based on monetary factors and hopes, which is good enough to last a while but must be boosted by further steps later on to improve the economy.
- Western equity markets may benefit from the Chinese interventions as there is some sentiment spillover for the medium-term. However, the US presidential election is only a month away and could potentially create havoc. The race remains tight for several reasons, and it is possible that the losing party may challenge the election results which could create turmoil for a while. We expect some profit taking and corrective activity through October in the major equity markets.
- The commodity complex benefits from the China package, and base metals which were particularly deeply oversold, will continue to rally.
- Crude oil, however, remained weak up until Israel entered Lebanon with ground forces. The intensification of the conflict in the Middle East may push prices higher medium-term from the current oversold condition.
- Gold is in a powerful long-term bull market, but it is in the later stage in its medium-term rally and also short-term extended. Thus, it would be normal to see some pullback. For the time being the risk is low and any medium-term correction may not break $2300.
- Bitcoin swings with equities in a wide range of $85,000-$40,000. It is at present too speculative for our taste to enter at these levels, and we would rather take profits as it swings with equity indices.

Increasing Geopolitical Volatility During Q4 2024

The 4th quarter of 2024 could become the most volatile geopolitical quarter in many years, if not decades. The US elections are a major event, and the outcome will have implications not only for the US but for the whole world. There are two ideological camps competing for power: the internationalists/political establishment/big government-oriented represented by Harris and the populist/nationalist/free market camp represented by Trump. The election outcome will be extremely important for both the future of the USA and the future of the world, because of the diametrically opposing policies – both economic, and geopolitically.

The 4th quarter of 2024 could become the most volatile geopolitical quarter in many years, if not decades.

In addition, there is an international dimension. The nationalist/populist Trump would focus more on making the US great again with the risk of some insularity. In constrast, the political establishment would rather try to defend the former US hegemonic position in a unipolar US centric world order, which could lead to more and bigger wars.

The UK prime minister visited Washington requesting the US' okay to use long range missiles against targets on Russian territory. While the State Department was reported to be okay with it, according to sources we have read, the Pentagon stepped in and rejected it. The point is that Ukraine does not have the resources to operate those missiles, so Russia would consequently see any NATO military

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assistance with launching missiles into their territory as a declaration of war by a NATO member nation. For the time being, the US finds this too risky. We are concerned that this could change, which would significantly increase risk of escalation and the start of a World War III.

As a result of these attempts, Russia has eased its nuclear doctrine due to rising risks of attacks by NATO. While in the past an attack by a nuclear power was considered a case to use nuclear response, the new doctrine makes nuclear use possible when a nation related to a nuclear power attacks Russia. This is the response to the UK's prime minister's attempt to use long-range missiles to attack targets in Russia.

There have been rumors that Russia could use a tactical nuclear blast on the Ukrainian troops who entered Russia towards Kursk to demonstrate Russian willingness to use nuclear weapons. But this is not confirmed, at present. We mention it because it demonstrates that we are moving further into risky territory and are living in dangerous times.

The war is not going well for Ukraine, and Russia continues to gain territory. Wars often last long and one party makes progress slowly but suddenly the collapse of the weaker party is here. We expect this to happen sometime in 2025 if the situation does not escalate beforehand. We do not know how NATO will respond under such circumstances. While Europe is largely deweaponized and US weapons are also at low levels, we wonder how willing the West is to really enter war against Russia in earnest at this moment. Moreover, the US' first priority is not Ukraine but Israel.

It is surprising how naïve the Europeans are behaving and not seeing the risk of an escalation on European territory. The mood among the European public is slowly shifting to anti-war, but it has not reached the political establishment yet. Just look at the recent elections. The Netherlands is the only nation where a government was formed against mass immigration and anti-war, while in all the elections in France, German States and last weekend in Austria, the political establishment of center-left is losing big – but remains in power, as the losers unite irrespective of their former ideology with the far-left to form governments against the winners of the election. Democracy does not function any longer and a growing percentage of the population feels betrayed and not represented in governments any longer, despite their party winning (but not a majority). In Germany, the political establishment already discusses the exclusion of the AfD because they are growing too big. It is what happened when the Nazis excluded the Social Democratic Party and other left parties in the 1930s. This is a dangerous process and undermines our democracies.

War in the Middle East

Israel executed a masterful operation against Hezbollah by the explosion of pagers and walkie-talkies that eliminated parts of leadership of Hezbollah. It immediately followed up with targeted bombing raids against Hezbollah positions and weapon storage facilities and eliminated virtually the whole upper leadership of the organization. While Hezbollah is a large organization and deputies are stepping in quickly to replace leaders that were taken out, it left the organization in disarray for days. Israel continued to bomb Hezbollah military targets. We assume Hezbollah is badly weakened at this moment. And in Gaza, Hamas is hit hard and is considerably weakened. Israel has moved a lot of its resources out of Gaza to let their troops rest before the next stage of what appears to be an inevitable war. Israel has entered Southern Lebanon with a small, limited amount of ground forces to get rid of the missiles and weapons caches pointed at its Northern border with the goal to enforce the buffer zone that the UN previously agreed to that Hezbollah has ignored.

Iran has been sitting tight and has not retaliated before but the virtually complete elimination and Israel entering Lebanon was too much. Iran's president made several concessions to the US for a cease fire but was played. Iran had to retaliate now to not lose face vis-à-vis its own allies. That is why Iran launched an unprecedented missile attack on Israel yesterday. Israel has vowed to retaliate with serious consequences, as Iran targeted the entire country. This escalation could lead to large casualties on both sides and makes the Middle East very unstable at present.

The tremendous weakening of first Hamas and now Hezbollah's command

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structure in a few days is a disaster for Iran and its position in the Middle East. Instead of a powerful bridgehead at the Mediterranean Sea, Hezbollah was decimated within a few days in a smart operation with little resistance. It is obvious that Hezbollah was completely penetrated by spies.

> We believe it is wise to apply risk management procedures during a quarter that could easily become the most volatile in geopolitics in many years if not decades.

We assume Iran will discuss the situation with Russia and China. Both of them were not interested in a war, but we do not know whether that has changed. China is not interested in war and stated that again and again. But it will accept it if the US wants it. Russia may not be interested as long as the Ukraine situation has not been cleared. Russia's interest is to build up BRICS and to keep Iran as well as the Saudis as partner. The bigger question for Iran is what to do with Hezbollah that seems completely weakened and to Iran's disappointment, the strategy to use them broke apart quickly.

On a different note, it will be interesting to see how the Pentagon reacts to the recent developments. Publicly the Biden Administration is saying they are standing by their ally, but privately it has been reported that they pushed the Israelis 'not to escalate' and Israel has clearly gone on the offensive recently. We expect that certain factions of the State Department and the Pentagon are not happy about the elimination of Hassan Nasrallah (the leader of Hezbollah), as the Israelis used a heavy "bunker buster" bomb without coordinating the attack with the US, which did not leave a lot of time for the US to prepare for the retaliation and ongoing risk of escalation.

In view of the importance of the pending US presidential election, it is conceivable that some operations by US opponents may be executed shortly before the election to influence the outcome, or afterwards when the new administration is known, and the US president is a lame duck. Or Israel uses the lame duck period to execute its own plans.

Most investors disregard geopolitics, as historically it more often than not has not influenced financial markets. But the current environment poses a lot of risk on the geopolitical front, and we see that it could potentially have far-reaching consequences. We believe it is wise to apply risk management procedures during a quarter that could easily become the most volatile in geopolitics in many years if not decades.

China's Support Program

We have been pointing to the serious deflationary development in China with a systemic risk growing bigger. Last week, the Chinese government published several measures to support the economy, among them:

- Cuts of several interest rates including mortgage rates
- Cuts in the reserve requirement ratio
- Issuance of government bonds over 2 trillion yuan ($284 billion)
- Regulatory easing to make the purchase of real estate easier

These measures will not prop up the economy to a higher growth rate, but they will support the system. The banking system gets a lot of help by the cut in the reserve ratio, as it frees liquidity. The measures for the real estate market may reduce the pain somewhat but will not bring a reversal of the downtrend but perhaps a temporary pause. The program is not the big bazooka that is necessary to rebalance the system. For that the size of the package should be much bigger than this, which amounts only to approximately 1% of GDP.

However, the support measures targeted to lift the equity market are and will remain successful for several months. The Chinese stock market was extremely oversold from a cyclical and medium-term perspective (chart 1, next page). Thus, we currently see new purchases and short covering that will likely

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propel the market considerably higher over the medium-term.

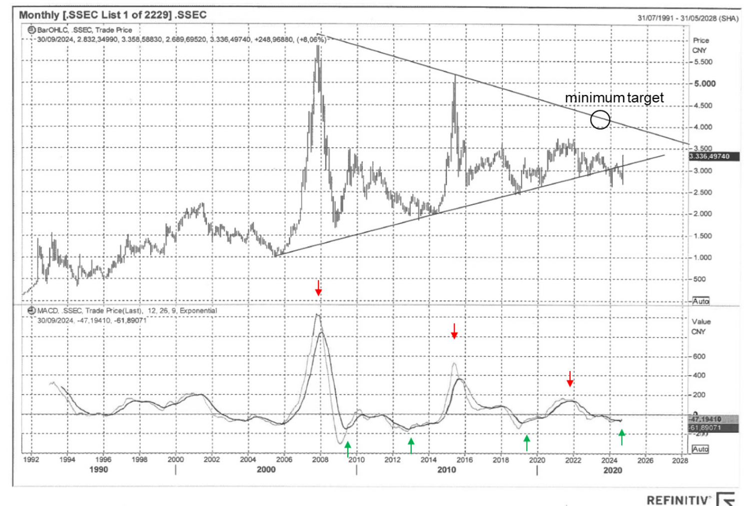
The problem remains, however, that the economy will not reverse course as the stimuli is not enough. However, it is conceivable that the government will add to the current package and finally make it much bigger in steps over time. Consumers are saving and not spending and certainly not buying more real estate in view of the large oversupply. For that reason, the government has to step in eventually according to Keynesian theory.

China has made a big step forward to support its economy. While there may be more steps necessary to follow up and make it successful, the price-keeping-operation (PKO) for the equity market will likely be successful for several months.

Chinese equities have already jumped sharply but are still an attractive trade for the medium-term and China will also outperform the EM indices because it has underperformed for long and is oversold in absolute and relative terms. Moreover, we are also seeing rallies in the obvious China plays like some other Asian equity indices as well as in Western luxury consumer goods stocks. However, sentiment in China has turned against foreign products as nationalism is flying high. Showing a Gucci bag or a Rolex watch or driving a Mercedes is completely out these days in China. Thus, the rally in these stocks will likely be temporary only and not go very far, as it will not be supported by fundamental improvements. Thus, the whole affair is one of improving sentiment while the fundamentals will only improve over time and if supported by further support increases. Keep in mind that the corporate sector is terribly liquidity constrained and that the consumer has a weak balance sheet, the job market is soft, and therefore consumer confidence is low. Consumer propensity to spend will remain relatively low if no further support will be forthcoming. That differs considerably from what we usually see in the US when the government begins to stimulate – as they do it decisively.

CHART 1

Shanghai Composite Index Monthly & MACD



Source: REFINITIV

China has always feared monetary easing in view of a potential weakening of the yuan, which China wants to avoid. But at present, the yuan is enormously strong – paradoxically at first glance – due to large repatriations by Chinese corporates that are short of liquidity. Thus, the PBoC can risk a monetary easing given these circumstances, as the yuan is strong. Once the big monetary bazooka arrives, the yuan will weaken considerably.

In summary, China has made a big step forward to support its economy. While there may be more steps necessary to follow up and make it successful, the

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price-keeping-operation (PKO) for the equity market will likely be successful for several months. The whole situation reminds us of Japan in the 1990s and early 2000s.

The US Economy

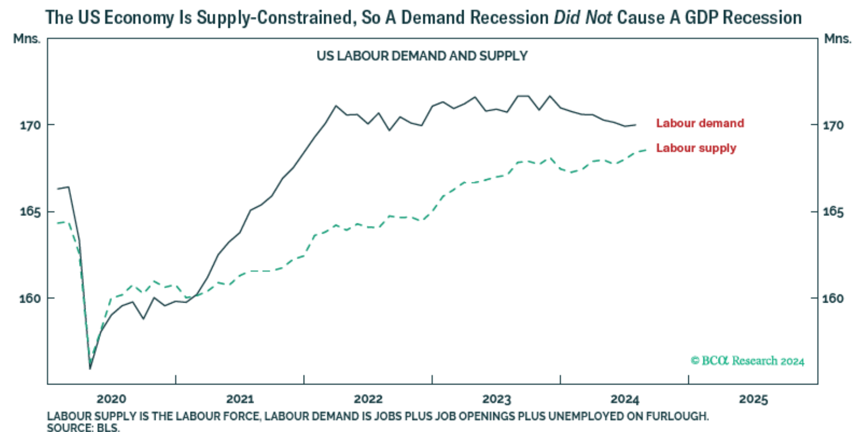
As we had outlined in our webinar, the US economy is slowing but it will take some time until it really weakens. The unique feature of the current cycle in the US is that a high number of people went for early retirement during the pandemic, and they are not returning. The result is that for the first time in modern history, labor supply in the US has fallen below labor demand (chart 2). We expect these two lines to cross by late Q1 2025, which would then lead to a rise in unemployment and a weaker economy. Until the labor demand falls below labor supply, the economy will hardly fall into a recession, but it will slow due to the restraints having been in place for some time.

> Thus, the US economy may not fall into recession in the next few months but only once labor demand falls below labor supply.

The strike at US ports may impact growth as may the damage done by hurricane Helene. While this may slow growth, it is conceivable that we may not see a normal recession, but we still think we will see quite a difficult corporate earnings situation in 2025. However, if the Fed continued to cut rates and the stock market

CHART 2

US Labor Demand and Supply



Source: BCA Research

would continue to rise, that "automatic teller machine" for consumers could support the economy further. This is even more important, as the recent revisions of economic data showed that the personal savings rate is higher at 4.8% instead of below 3% as reported before. Thus, the US economy may not fall into recession in the next few months in view of these changes but only once labor demand falls below labor supply. This is definitely a positive for equity markets.

Europe Will Disappoint

In Europe, the outlook is meager as consumers have suffered badly by the sharp increase of the cost of living. The savings rate has risen to 15% because consumer confidence is low in view of the political disarray in many countries and the war in Ukraine. The ECB will certainly cut rates further as the official inflation rate is falling decisively and has reached target, and the ECB is behind the curve.

> Any slowing in the US could push parts of Europe back into recession.

The outlook for exports is also problematic as China's imports are weak and

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will hardly brighten in the next few months and the US economy is slowing. Moreover, there are considerable budget constraints as governments must reduce the large deficits, which does not allow a stimulation package. In fact, Germany and France are reducing the fiscal deficit on a trend basis, which creates a negative fiscal impulse. Decisive deregulation would be the best stimulation package but that runs against the ideology of the political center-left establishment. Thus, we consider the economic outlook for Europe as weak. Any slowing in the US could push parts of Europe back into recession.

Interest Rates and Bond Yields

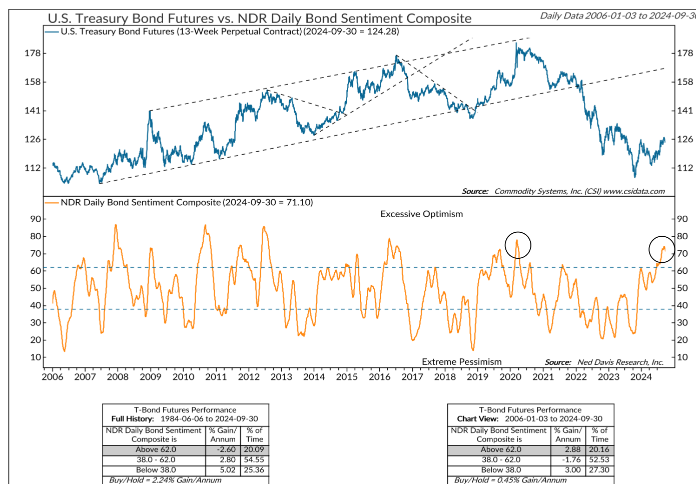
In view of what we said about the economy, it is likely that the Fed cut short-term rates too much, as the difference in favor of the repo rate versus T-bill rate is high. This drains liquidity from the financial system and RRPs have already swung back up again. Moreover, the fiscal deficit is smaller than last year's at this time, which provides no stimulus. Thus, it is conceivable that short-term rates and bond yields hit a temporary medium-term low, as we outlined in our Q&A report to the webinar we mailed on September 24th.

Our view is that short rates in the US have hit a temporary low for several months.

Our view is that short rates in the US have hit a temporary low for several months. Moreover, we also believe that sovereign 10-year bond yields in the US and in Europe have also hit a temporary low and may bounce over the next several weeks or even months. As traders, we would not be long bonds any longer and wait for the bounce to reenter. Investors who have strong nerves and prefer to sit out countertrend bounces, can do so. We still expect lower lows later, but it will also depend on what the new US administration and China will be doing.

CHART 3

US Bond Sentiment Is Too Bullish



T-Bond Futures Performance
Full History: 1984-06-06 to 2024-09-30

NDR Daily Bond Sentiment Composite is	% Gain/Annum	% of Time
Above 62.0	-2.60	20.09
38.0 - 62.0	2.80	54.55
Below 38.0	5.02	25.36

Buy/Hold = 2.24% Gain/Annum

T-Bond Futures Performance
Chart View: 2006-01-03 to 2024-09-30

NDR Daily Bond Sentiment Composite is	% Gain/Annum	% of Time
Above 62.0	2.88	20.16
38.0 - 62.0	-1.76	52.53
Below 38.0	3.00	27.30

Buy/Hold = 0.45% Gain/Annum

Source: Ned Davis Research, Inc.

China's support package has also put a stop to the decline in government bond yields. Short rates in China may also pause but will likely go lower later. They cannot go too low as this would drain deposits from the banking system and create more trouble than help for the system that is short of liquidity.

Our message is that a medium-term low in bond yields have been hit or is in the making and that there is some upside in yields for most of Q4 on a global basis, or at least a pause at current levels. Sentiment is as bullish as it last was when 10-year US T-bonds yielded 0.5% (chart 3).

Forex

We also outlined in our webinar and in the Q&A report of last week that the US dollar is approaching a temporary medium-term low in synch with US T-bond yields versus most major currencies.

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The US dollar has weakened considerably since early May and is getting oversold on a medium-term basis (chart 4). Moreover, the liquidity condition in the US seems to deteriorate again for the reasons explained above. Thus, it may appear that the market has run too far ahead of realities and discounted rate cuts that will hardly arrive as early as expected.

The US Dollar Index is in a medium-term bottom beginning a recovery very soon.

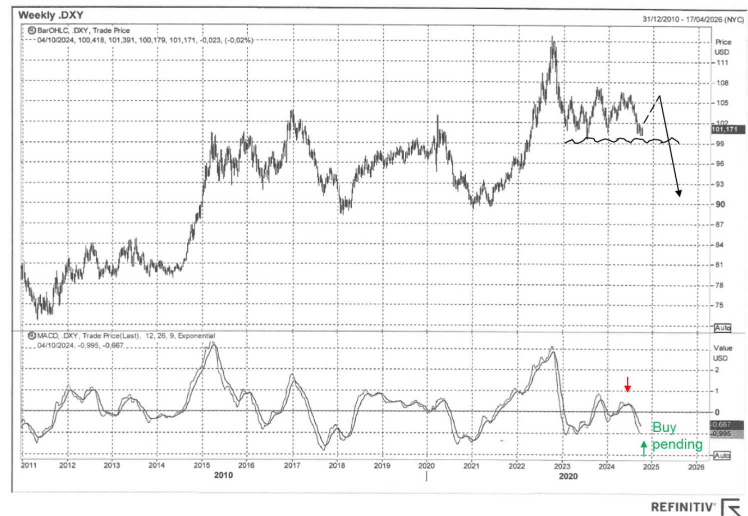
The US currency is oversold on a medium-term basis and correlates well with US bond yields, at present. Sentiment is very depressed, and momentum indicators are approaching a low. The US Dollar Index may marginally break 100 slightly before the recovery begins, but it is in a medium-term bottom beginning a recovery very soon.

Asian currencies have been particularly strong lately while their economies have not and require some rate cuts. It may have been due to repatriation as we are seeing with Chinese corporates. Due to a slow economy, corporations may run into liquidity problems and are therefore selling as much via exports as possible to then repatriate the proceeds. This creates a strong currency temporarily, but it will hardly last. We like the Singapore dollar best among Asian currencies.

The USD/JPY has virtually completed its first medium-term decline from over 160 to 140. It is now attempting to rebound in synch with

CHART 4

US Dollar Index Weekly & MACD



Source: REFINITIV

an expected general rebound of the US unit to begin soon. The low 150s is achievable. We have not received the medium-term buy signal yet, but we believe investors and traders should prepare for a US dollar rebound to begin soon.

Global Equity Markets

As outlined above, it seems that any US recession will only arrive from late Q1 onwards and not before. Moreover, the Fed has shifted policy priority from fighting inflation to fighting potential recession and supporting the economy. In China, the authorities are bringing on some fiscal policy – still limited but a change of policy – to support its economy combined with monetary easing. Europe will likely cut rates further as inflation has now reached the target zone below 2%. While some steps are marginal, it represents a shift in policy towards supporting/stimulating, which equity markets like – and bonds do not. No wonder, global investors are very bullish!

Central banks shifting alone does not change the big picture. We also need the banking system to cooperate. At present, our analysis shows that is rather turning away from liquidity creation. The US repo rate is decisively above the T-bill rate, which attracts liquidity into RRPs, which is draining liquidity and the TGA is just at the target level of around $750 billion. Moreover, the fiscal deficit is shrinking and is now lower than a year ago, which is neither stimulating the

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economy nor creating additional liquidity. This means that from the monetary perspective, a correction in US and other major equity markets may begin here.

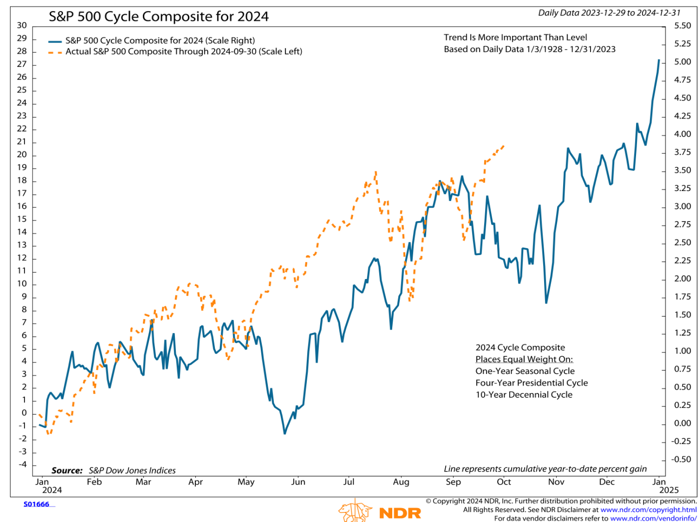
Our trend and momentum indicators also show a very overbought condition short-term that should lead to a correction through most of October. Although it is unclear how deep this correction will be. Medium-term trend indicators are bullish but extended for the main US and European indices; and they could reverse quickly from their extended position. However, they differ by individual indices, industry groups and individual stocks.

From the monetary perspective, a correction in US and other major equity markets may begin here.

In the US equity market, the medium-term uptrend remains intact for the broad market, but we have just received a short-term sell signal that may lead to a pullback during October to a low before the election. There is a distinct difference by indices, individual industry groups and individual stocks. For example, the S&P500 Equal Weighted Index continues to look stronger than the S&P500. In the same camp are the DJIA, Value Line, and S&P500 Large- Cap Value. On the softer side and showing higher risks remain the Growth stocks like the Magnificent 7 and Nasdaq 100. We expect them to underperform into the next short-term low expected in late October.

CHART 5

S&P 500 vs. Combined 1-, 4- & 10-Year Cycle



Source: Ned Davis Research, Inc.

Sentiment indicators are also stretched on the upside and a correction would improve the situation. However, main trend indications from moving average studies of all sorts still confirm the bull trend. The caveat is that they will lag at turning points, of course. The combined 1-, 4- and 10-year cycle calls for a correction in October, a seasonally weak month, but also for a sharp move higher from around election time (chart 5).

In essence, it appears that the bull cycle, after a correction in October, may have a chance to extend well into Q1 helped by the general sentiment improvement stemming from China's latest support intervention. This may push global sentiment higher over the coming months – but after an October correction. It is unclear how long that rally will last. Based on historical presidential cycles (chart 6, next page), it could peak around mid-2025, followed by a cyclical decline into a 2026 low. However, we are not sure this cycle is like its predecessors as it is conceivable that the US will not have a president as the election may be contested in court and the behavior in view of such uncertainty about the future course would hardly be a positive.

But for the time being, we expect a correction in October, followed by another rally to higher highs. European markets and other major markets like Japan may swing with the US market, as they did before.

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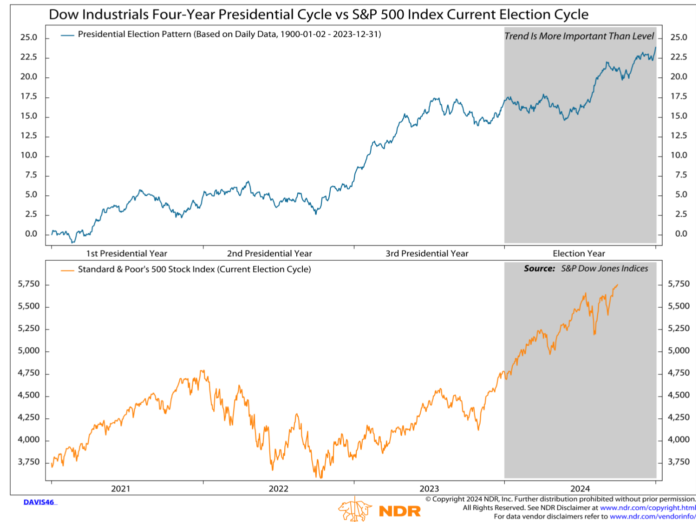
The one market that is very different is China, as the support package triggered a bullish response from the Chinese equity market that triggered a cyclical and medium-term buy signal for China. This is even more important as Chinese equities in global portfolios are terribly underweighted (chart 7) and will therefore force more money into the Chinese market. Based on our work, China is beginning a new cyclical bull market. The problem is that it rose within one week as much as we thought it would rise in half a year. Terribly short-term overbought markets coming out of a deep long-term oversold condition due to a long bear market, are very bullish indications. Thus, investors and traders can still buy with a 6-months view or longer.

We expect a correction in October, followed by another rally to higher highs. European markets and other major markets like Japan may swing with the US market, as they did before.

While we do not know the shape of this bull run and its potential, there is a triangle pattern since 2005 with a break to the downside this year and a quick bounce back inside (chart 8, next page), which means that all the weak money that wanted to sell has sold, and the market has been cleared on the downside. The upper trendline of this triangle stands at around 3900, still up 18% from current levels. But our point is that this

CHART 6

US Equity Indices vs. Presidential Election Cycle



Source: Ned Davis Research, Inc.

CHART 7

China Allocation in Active Global Equity Funds

Source: Deutsche Bank

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market has a chance to break out topside and rise to much higher levels. As we pointed out in previous reports, China must at some point reliquefy its system and inject large amounts of newly created liquidity. That will be super bullish for real assets like stocks – and their valuation is still cheap. Real estate will also benefit once the big bazooka is applied, but there is such a large overhang of empty capacity that makes real estate (the Chinese already have 2/3 of their savings in real estate) much less attractive relative to the underowned equity market.

Other Asian markets are somewhere between the US/European markets and China in their own cycle, but they will all benefit. India is more identical with the US while Hong Kong, Singapore, Malaysia or Indonesia are running behind the US but ahead of China. This may also mean that the Asian emerging market universe is bottoming out and beginning to outperform the developed markets. The one factor missing is a weak US dollar. If the US dollar begins a recovery soon, as we expect, it may dampen the enthusiasm for these markets temporarily, as those central banks cannot ease as they should if the US unit rallies.

Commodities

While we think that the Chinese equity market remains attractive and will rally higher medium-term, we doubt that all the "China play derivatives" like commodities or consumer luxury goods stocks will show the same performance.

China is not yet entering a major investment cycle, and therefore it will not import a lot more commodities than before. Thus, while the commodity complex looks like the last sell-off could have been the final shakeout, we are not

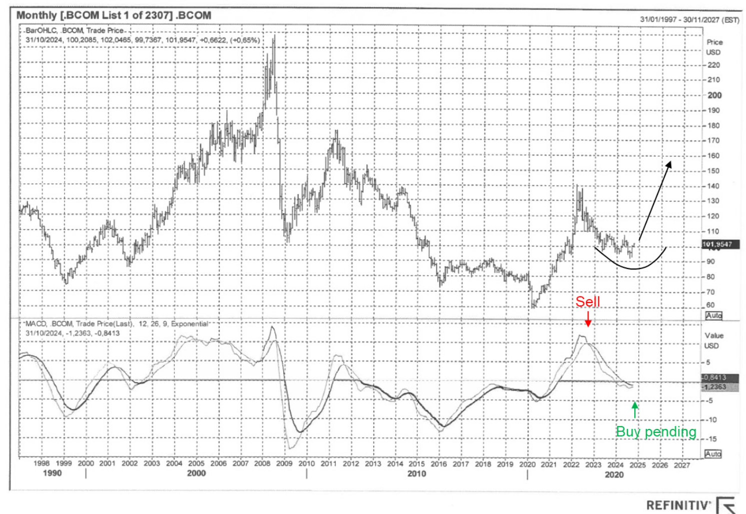
CHART 8

Shanghai Composite Index Weekly & MACD

Source: REFINITIV

CHART 9

Bloomberg Commodity Index Monthly & MACD



Source: REFINITIV

totally convinced yet. Our arsenal of indicators are close to triggering a buy signal for the cycle, but they have not done so, as shown in chart 9 of the Bloomberg

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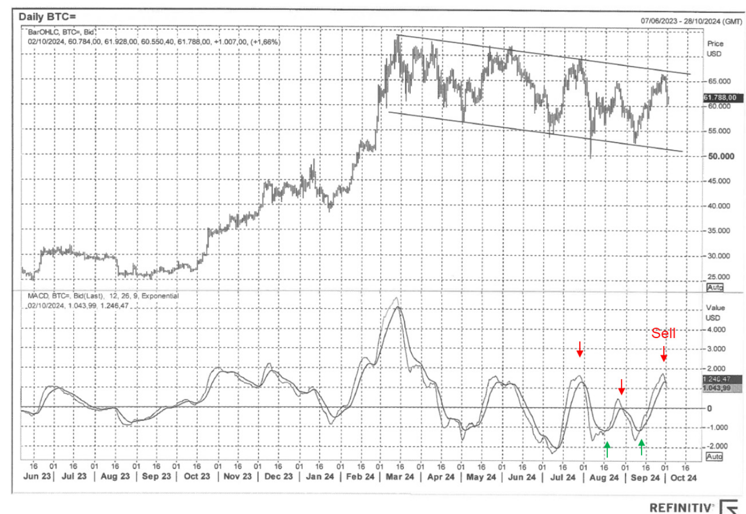
Commodity Index. All we received was a signal for a medium-term rally. And that rally is developing in the base metal and agricultural complex that have been quite oversold lately and are now rallying with higher potential.

Surprisingly, crude oil has not performed well and even weakened recently in the face of war activity in the Middle East. The story is that the Saudis want to reclaim market share and are trying to push a few marginal producers out of the market. Crude oil traded below $70 but once Israel entered Lebanon, it reversed and is now in the early stage of a medium-term rally. Do not forget that the US government still must replenish its strategic reserves. Thus, the downside seems limited for now and a medium-term rally supported by short-covering is in its early stage. Natural gas is bullish and already running ahead of crude oil.

CHART 10

Bitcoin Daily & MACD



Source: REFINITIV

Bullish Gold But We May See a Pull Back Here

Gold remains in its bull market but is very extended short-term. Our indicators suggest a corrective pullback is near and may materialize in synch with major equity indices. If a pullback develops, we expect another attempt to go higher thereafter before a medium-term reversal and an interim and medium-term corrective process begins within an ongoing bull market. The same is true for gold mining stocks.

> Gold remains in its bull market but is very extended short-term.

Bitcoin did swing more with equities than with gold. But now, all three are approaching short-term sell signals leading to temporary pullbacks within medium-term advances (chart 10). If the liquidity condition develops along our fears, it would fit very well with such pullbacks in all these markets. Stay tuned!

Final Remark

Our view remains that our system is in the endgame over the next 5-8 years and while markets will likely go higher before the secular bull market is over in real assets, we will also see some painful corrections. Keep in mind that our Western economic system is exhausted due to demographics, excessive debt and regulation. Without the large fiscal deficits, our economies would not grow but fall into recession. And these deficits are difficult to finance as the G7 countries are running short to finance the public sector deficits from household savings by 2-3% of GDP. The main surplus nations are primarily BRICS+ that will not buy Western government debt any longer, as our currencies have been misused as political weapons (confiscation of Russian assets). Eventually, central banks must buy the debt using newly printed money. This inflationary bias will increase over the coming years, debasing our currencies further and eventually pushing bond yields higher that will be an enormous additional burden for our system.

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We mention this as what we may see is not necessarily a bull run due to sound economics but rather part of a crack-up boom development that carries tremendous risks. Be aware of these factors and consider this in your portfolio allocation.

Felix W. Zulauf
October 2, 2024

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