

“2016 So Far, Not So Good

Happy New Year & welcome back if you've just returned from holidays. For those with school aged kids then things are probably back to normal for you, they're back at school, you're back at work, hopefully you're refreshed, maybe even tanned, and feeling good to tackle the year ahead.

Unfortunately the mood in capital markets is not normal, it's one of nervousness and volatility (both large swings day-to-day and also intra-day swings) and volatility usually means downside risk.

Around the time of our last newsletter the ASX200 was hovering around the 5,000 level and despite what I thought, rallied hard to finish the year at 5411.2 for an annual loss of 2.1 percent, and down 9.5 percent from the peak of 5982.7 on April 27. Even more depressing, the ASX200 is now 27 percent down from the 6,829 peak of November 1, 2007.

So far this year the ASX200 is down approximately 7.5 percent, around 5,000 points, and some 16.5 percent below the 2015 peak. On one day the index hit an intra-day low of 4750 point, 12.2 per cent down from the end of December.

At the time of writing it was the last trading day of January and according to The Daily Reckoning if the ASX200 fails to go above 5,000 it will be the lowest monthly close since June 2013.

The big four banks which account for almost 28 percent [weighting](#) of the ASX 200 had a mixed 2015. Whilst Westpac and CBA managed gains of 1.8 and 0.3 percent respectively, ANZ and NAB weren't so lucky falling 12.9 and 9 percent respectively. However, since the 2015 peak they're all in the red, ANZ -30 percent, NAB -26 percent, WBC- 20 percent, and CBA -14.3 percent, with CBA the only one not in bear market territory. It just a bad year for the banks, not that they'll garner much sympathy, they were told by APRA to limit house lending growth, and to raise more capital as a safety buffer.

BHP also attained bear market territory, hardly surprising given the rout in key commodity prices during 2015 with iron ore down 39 percent, oil down 36 percent, copper 25 percent, and gold posting its third annual loss, down 10 percent. Consequently, the big Australian fell 35 percent over the course of the year.

Despite falling markets there are always bright spots for one reason or another, like Blackmore's for instance to whom the Chinese have an insatiable appetite for their vitamins. Its stock, which rose 517 percent in 2015 to \$217.98, took 30 years to reach \$100 then just another 6 weeks to add another \$50. Incredible. Other stars included APN Outdoor up 140 percent, Evolution Mining up 132 percent, Domino's Pizza up 130 percent, Mayne Pharmaceuticals up 126 percent, and Australian Pharmaceutical Industries up 125 percent.

Turning overseas and U.S. stocks had their worst annual performance since 2008, the Dow Jones Industrial Average down 2.2 percent however the broader S&P 500 only fell 0.7 percent. The tech-heavy Nasdaq Composite Index had a great year in comparison, managing a gain of 5.7 percent.

Across the Atlantic, the most important indices are Germany's Dax 30, the U.K.'s FTSE 100, and France's CAC 40 as combined they contain the largest companies in Europe's biggest economies. The Dax & CAC increased 10 & 8.5 percent respectively, whilst the FTSE chalked up a loss of just under 5 percent.

Over in Asia, Japan's Nikkei surged almost 9 percent (1,600 points) to finish at its best close in 19 years at 19,033. But despite the Abenomics inspired money printing the Nikkei is still less than half its December 1989 peak.

China's Shanghai Composite Index incredibly managed a 9.4 percent gain for the year despite the index plunging over 40 percent in late August. Mind you the Chinese have gone to extraordinary lengths to maintain the status quo including the banning of short selling, they imposed a ban on company bosses, senior management, and investors with stakes exceeding 5 percent from selling for 6 months, they arrested stockbrokers and even journalists accused of causing market chaos. Then in 2016 they simply halted trading, twice in one week in fact, and on one of those occasions trading lasted just 30 minutes for its shortest trading day in its 25 year history.

Whilst 2015 may have finished with a Santa rally in capital markets, 2016 has started horribly with losses across the world, oil tumbling even lower from 2015's \$37 close to as low as \$28, and the Chinese continuing to devalue the Yuan.

To get some idea of what's happened so far in 2016 I simply hand-picked some headlines, in chronological order, from ZeroHedge, the best financial website on the planet. Remember, these headlines are from 1st January 2016 onwards, it's been busy:

General

[Stocks Storm Green, Oil Surges After Russia Says Will Discuss "Possible Production Cuts With OPEC"](#)

[Denmark Passes Law To Seize Valuables, Cash From Refugees](#)

[The Ultimate "Truth Bomb" - The East Knows The West Is Bankrupt](#)

[Not "Off The Lows" - World Trade & Industrial Production Growth Near Post-Crisis Lows](#)

[Who Is Right: Stocks Point To A Half-Recession; Oil Screams A Global Depression](#)

[Dutch Bond Yields Collapse To Record Lows At -42.5bps!](#)

[The U.S. Is At The Center Of The Global Economic Meltdown](#)

[George Soros: "Europe Is On The Verge Of Collapse"](#)

["If Assets Remain Correlated, There'll Be A Depression": Ray Dalio Says QE4 Just Around The Corner](#)

[62 People Have More Wealth Than Half The World, Top 1% Have More Than Everyone Else](#)

["Countdown To The End": EU Officials Say Europe Is "Going Down The Drain"](#)

[The China Syndrome: The Coming Global Financial Meltdown](#)

[It's Official: Bitcoin Was The Top Performing Currency Of 2015](#)

["A Sad State Of Affairs" - Two-Thirds Of Americans Have No Emergency Savings](#)

[Gold, Bitcoin Soar After China Liquidates Most Reserves On Record To Defend Currency](#)

[Copper Futures Crash Below \\$2 For First Time Since 2009](#)

[Is 2016 The Year Of The Dollar Collapse?](#)

["It's Coming To A Head In 2016" - Why Bank of America Thinks The Probability Of A Chinese Crisis Is 100%](#)

[Carmen Reinhart Warns "Serious Sovereign Debt Defaults" Are Looming](#)

China

[This Could Be A Problem: China's Debt-To-GDP Rises To A Gargantuan 36%](#)

[China Injects Another \\$50 Billion Liquidity As Mysterious Panic Buyer Reappears In Offshore Yuan](#)

[Official In Charge Of China's Cooked GDP Books Probed For "Severe Violations"](#)

[Chinese "Lose Faith In Collapsing Stock Markets And Currency", Import Most Gold Since 2013](#)

[Offshore Yuan Drops To 3-Week Lows As China Injects Another \\$70 Billion Liquidity](#)

[Chinese Rush To Buy Foreign Assets As Mammoth \\$1 Trillion In Capital Flees Country](#)

["China Is Not Contained" Credit Market Screams](#)

[Ben Bernanke: "China Is Contained"; Ray Dalio Agrees](#)

[PBOC Injects Massive \\$60 Billion Liquidity - Most In 3 Years; China Stocks, Yuan Drop](#)

[Yuan Slides After Quadruple Whammy China Data Miss: GDP Both Matches And Misses](#)

[China's Housing Is Recovering, Just Ignore The 10 Billion Square Feet Of Vacant Housing](#)

[Could China's Housing Bubble Bring Down The Global Economy?](#)

[Some Chinese Banks Run Out Of Physical Dollars As PBOC Holds Yuan Fix Flat For 4th Day](#)

[China Contagion Spills Over To Hong Kong Banks As HIBOR Explodes To Record High, Stocks Tumble](#)

[China's Plunge Protection Team Bought ¥1.8 Trillion In Stocks In 2015](#)

[China Has A "Colossal Credit Bubble" And No One Knows How It Will Unwind, Marc Faber Warns](#)

Soros V China

[China Says Soros "Hasn't Done His Homework," May Be "Partially Blind"](#)

[China Warns Soros Against Starting A Currency War: "You Cannot Possibly Succeed, Ha, Ha"](#)

[Soros Reveals He Is Short The S&P 500: Warns China Will Have A Hard-Landing, Says "Fed Hike Was A Mistake"](#)

Markets

[China Crashes To 13 Month Low After Last Hour Panic Selling; Crude, Futures Tumble Then Surge](#)

["Worst Start To Year Since 2008" But Stocks Bounce On Crude Squeeze, Central Bank Hopes](#)

[World Enters Bear Market - Global Equity "Dead Cat Bubble" Bursts](#)

[Japan's Nikkei Closes Below 17,000 As Hong Kong Money-Markets 'Break' Again](#)

[Japanese Stocks Enter Bear Market, Credit Risk Surges To 20-Month Highs](#)

[Nasdaq Collapse Leaves No Major US Equity Indices Positive Post-QE3](#)

[European Stocks Enter Bear Market](#)

[The Dow Is Now Down 1600 Points From New Year's Exuberant Highs](#)

[Albert Edwards Hits Peak Pessimism: "S&P Will Fall 75%", Global Recession Looms](#)

[Bear Market: The Average U.S. Stock Is Already Down More Than 20 Percent](#)

[Russian Stocks Are Crashing
RBS: "This Is Simply The Worst Week We Had In Recent History... After Too Much Policy Kool-aid"](#)

[Dow Dumps 1200 Points From Holiday Highs, Nasdaq In Correction As Steeper Yuan Collapse Lies Ahead](#)

[Global Stocks Crash After Spiraling Chinese Devaluation Unleashes Worldwide Chaos And Selling](#)

[China Suspends Circuit-Breaker Rule - "This Is Insane; We Were Forced To Liquidate All Our Holdings This Morning"
Here We Go Again: China Halts Trading For The Entire Day After Another 7% Crash](#)

[Stocks Plunge To 3-Month Lows Amid Crude Carnage, Chinese Currency Collapse](#)

[US Equity Collapse Erases All Post-QE3 Gains As FANTAsy Stocks Plunge](#)

[Dow Futures Plunge 170 Points After Yuan Crashes To 5-Year Lows As PBOC Loses Control](#)

[The Carnage Returns: Stocks Tumble After Sharp Chinese Devaluation; Brent At 2004 Lows; Gold Surges](#)

[A Shocked Wall Street Reacts To China's "Surprising" Devaluation](#)

[Dow Swings 1000 Points In 24 Hours As Crude Carnage Continues](#)

[China Halts Stock Trading For Day After Entire Market Crashes](#)

[Happy New Year: Global Stocks Crash After China Is Halted Limit Down In Worst Start To Year In History](#)

Oil

[Oil Soars To 3 Week High On Saudi Production Cut Confusion; Iran Spoils The Party](#)

[US Crude Inventories Are The Highest Since The Great Depression](#)

[Crude Plunges After API Reports Biggest Inventory Build Since 1996](#)

[Crude Oil Slides Below \\$28, Lowest Since 2003, Dragging US Equity Futures Lower](#)

[Brent Follows WTI, Crashes Below \\$30 For First Time Since April 2004](#)

[Forget \\$20 Oil: StanChart Says "Prices Could Fall As Low As \\$10 A Barrel"](#)

[WTI Plunges To \\$35 Handle As Loonie Hits 12 Year Low](#)

Currency Wars

[Is China About To Drop A Devaluation Bomb?](#)

[Swiss Franc Plunges To One-Year Lows Amid SNB Intervention Chatter](#)

[This Is What The Death Of A Nation Looks Like: Venezuela Prepares For 720% Hyperinflation](#)

["China 2016 Is US 2008" Felix Zulauf Warns "The Outcome Of A Major Yuan Devaluation Would Be Disastrous"](#)

[Bank Of Russia Calls "Emergency" Meeting To Address Ruble Rout](#)

[Saudi Arabia Unleashes Capital Controls: Bans Bets Against Dollar Peg](#)

[Hong Kong Dollar Plunges To Weakest Since Aug 2007](#)

[Foreign Central Banks Furiously Dump US Treasuries: Record \\$47 Billion Sold In First Two Weeks Of 2016](#)

[Presenting Turkey's "Vicious" Depreciating Currency Cycle](#)

[The Demise Of Dollar Hegemony: Russia Breaks Wall St's Oil-Price Monopoly](#)

[The Hedge Fund Known As The Swiss National Bank Posts A Record \\$23 Billion Loss, Down 4%, On EUR, AAPL, VRX](#)

[Saudi Devaluation Odds Highest In 20 Years, Kingdom Now More Likely To Default Than Portugal](#)

[Denmark Hikes Rates As Draghi's "Hawkish" Ease Relieves Peg Pressure](#)

[Sweden Prepares For FX "War" With Bloodthirsty Hedge Funds](#)

[Nigerian Currency Collapses After Central Bank Halts Dollar Sales To Stall "Hyperinflation Monster"](#)

[Angola's Currency Collapses To Record Low As "Hyperinflation Monster" Looms Over Africa](#)

[Saudi Default, Devaluation Odds Spike As Mid-East Careens Into Chaos](#)

The Disturbing War on Cash Escalates

[Mainstream Media, Economists Mock "Cash Hoarding" Canadian 'Savers' Capital Controls Are Coming](#)

[Norway's Biggest Bank Demands Cash Ban](#)

[War On Cash Escalates: China Readies Digital Currency, IMF Says "Extremely Beneficial"](#)

[The International War On Cash](#)

[After "Murderous" Squeeze, China Boosts Capital Controls By Ordering Banks To Limit Yuan Outflows](#)

Fed

[Fed Back-Pedals Hawkishness, Hints At Policy Error: "Monitoring Global Developments", Admits "Growth Slowed Last Year"](#)

[Here It Comes: New York Fed President Says "If Economy Weakens Further, Would Consider Negative Rates"](#)

["We Frontloaded A Tremendous Market Rally" Former Fed President Admits, Warns "No Ammo Left"](#)

U.S. Economy

[Recession At The Gate: JPM Cuts Q4 GDP From 1.0% To 0.1%](#)

[Atlanta Fed Waits Until The Close To Reveal 0.6% Q4 GDP Estimate](#)

[Q4 Will Be The Worst U.S. Earnings Season Since The Third Quarter Of 2009](#)

[US Factory Orders Deep In Recession - Tumble YoY For 13th Month In A Row](#)

[Wall Street's Biggest PermaBull Just Slashed His Q4 GDP Forecast To 0.5%, Says "It May Be Too High"](#)

Baltic Dry Index Indicates International Trade Grinding to a Halt

["Zombie Ships" - Why Global Shipping Is Even Worse Than The Baltic Dry Suggests](#)

[US Freight Volumes Fall For First Time In 3 Years As Baltic Dry Crashes Under 400](#)

[Chinese Shipyards "Vanish" As Baltic Dry Collapses To New Record Low](#)

["Nothing Is Moving," Baltic Dry Crashes As Insiders Warn "Commerce Has Come To A Halt"](#)

[A "Perfect Storm Is Coming" Deutsche Warns As Baltic Dry Falls To New Record Low](#)

Canada

[Canada Set To Unleash Negative Rates As Oil Patch Dies, Depression Deepens](#)

[Canadians Panic As Food Prices Soar On Collapsing Currency](#)

[Loonie Lurches To 13 Year Lows As Crude Nears '2' Handle](#)

Banks & Bail-Ins

[Italian Banks Sink As "Bad Bank" Plan Underwhelms](#)

[Italy Races To Defuse €200 Billion Bad Loan Time Bomb With "Bad Bank"](#)

[Italy, Greece, Financials Crash As European Stocks, Peripheral Bonds Plunge](#)

[Italian Banks Collapse, Short Sales Banned As Loan Loss Fears Mount](#)

[Exclusive: Dallas Fed Quietly Suspends Energy Mark-To-Market On Default Contagion Fears](#)

[Creditors Accuse Portugal Of "Unfair, Populist Short-Cut" In €2 Billion Bank Bail-In](#)

[The EU Bail-In Directive: Dark Clouds Are Gathering](#)

ECB

[ECB Keeps Rates Unchanged, Focus Turns To Draghi](#)

[Yes, The ECB Chief Economist Really Said It: "If You Print Enough Money, You Always Get Inflation. Always."](#)

[What Does The Future Hold For Negative Rates In Europe? Goldman Answers](#)

IMF

[Former IMF Chief Economist Warns "If Stock Slump Lasts Longer, Will Become Self-Fulfilling"](#)

[IMF Slashes Global Growth Outlook Again, Warning "Of Great Challenges" In Year Ahead](#)

Gold – just about the only bright spot

[Germany Has Repatriated Over 366 Tonnes Of Gold From New York And Paris](#)

[Gold Soars Above Key Technical Level Near 2-Month Highs](#)

[A Disturbing Warning From UBS: "Buy Gold" Because A 30% Bear Market Is Coming](#)

State of Play

So, what to make of all these headlines. Well, a few things are clear, China dominates the headlines as they simultaneously devalue their currency to save their economy, and continue to pump prime their capital markets and banking system. Former Fed chairman Ben Bernanke thinks they have the situation contained, but as most of us know, he also thought the American housing market was also contained shortly before it cratered. For some context, China's growth is now half it's 2007 peak above 14 percent. Whether or not they can save their situation, or crash and burn is anyone's guess but one thing's for sure they will go down fighting.

Oil also dominates the headlines and is mentioned almost daily on TV finance updates. As a litmus for the global economy oil is unfortunately screaming tough times ahead, as is the Baltic Dry Index (a gauge of global shipping rates which is collapsing), and as is copper which is used in construction.

The U.S. economy appears to be slowing, possibly into recession and disturbingly, the best GDP forecaster in the world right now, the Atlanta branch of the Federal Reserve, has lowered their Q4 forecast three times this year! Meanwhile, the worst forecast was from an investment bank is for a paltry 0.1 percent growth in Q4, and bear in mind this is annualised growth.

Under the heading "Currency Wars" (a term coined by former Brazilian Minister for Finance Guido Mantega) we see countries struggling to maintain currency stability with and almost all engaging in some form of beggar thy neighbour economic policy of devaluation to maintain growth.

I threw Canada in as a comparison to Australia because like us they are a relatively scarcely populated country whose economy largely depends

on resources, except their main export is oil as opposed to our iron ore.

Banks in Europe are in trouble, bank bail in's occurred last year with more to come. However, don't be fooled into thinking U.S. banks are any better, they are probably worse but masking their true state through the suspension of international accounting standards which allow them to suspend mark-to-market valuations on mortgage backed securities and now energy debt.

Right now the only bright spots are [gold and Bitcoin](#) both of which we mentioned in our last newsletter. Gold we said to keep an eye on for a possible breakout, and Bitcoin for its negative correlation to Chinese devaluation.

For investors the climate is not just tough, it's brutal. We are in the midst of the largest monetary experiment of all time, never has there been monetisation of debt on the scale we've seen the last 6 years or so. Bank bail-ins, capital controls, and even a possible ban on cash are coming. All these measures are being implemented because things are increasingly getting desperate, and if things get really bad, countries will close their economies to protect themselves.

How do you navigate a once-in-a-lifetime event like this?

Coincidentally, all this market turmoil is occurring at the same time as the running of the movie *The Big Short*, based on the book by financial journalist and author Michael Lewis. *The Big Short* gives an insight into the sub-prime crisis in America, the causes, the culprits, and a lucky few who profited handsomely via big short positions. If you haven't heard of Michael Lewis, see the movie then read all the books. He uncovers great stories and tells them brilliantly, little wonder *The Big Short* is the third time a book of his has been made into a movie."

Colin Hillery, Investor Relations, Funding Strategies, 29th January 2016.

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