



# PHIL'S STOCK WORLD

HIGH FINANCE FOR REAL PEOPLE | FUN AND PROFITS

Dow Jones	11,192 (-2.2%)
S&P 500	1,199 (-2.2%)
NASDAQ	2,518 (-2.4%)
NYSE	7,623 (-2.3%)
Russell 2000	719 (-2.4%)
Oil	84.87 (-2.3%)
Gold	1,365 (-2.3%)

## THIS WEEK'S NEWSLETTER:

### MONDAY MARKET MOVEMENT

QE2 prompts hedge funds to bet on oil

### TESTY TUESDAY - DOLLAR 77 EDITION

Cisco gets pummeled after earnings

### WILL WE HOLD IT WEDNESDAY - THE GLOBAL PERSPECTIVE

Sarah Palin speaks out against QE2

### THURSDAY - THE FED'S GOT POMO FEVER!

European Debt troubles help push the Dollar up

### THANK G20 IT'S FRIDAY - YET ANOTHER GLOBAL CLUSTER F\*CK

G19 refuses to endorse US push to force China to raise the value of their currency

### THE WEEK AHEAD

This week, the [continuing debt crisis in Europe](#) prompted investors to suddenly notice the relative security of the Dollar compared to the Euro, and this propped up the Dollar despite the Fed's commitment to drive it lower via QE2. Again, the rising Dollar proved to be the primary driver of the markets, as it climbed from a low of 76.8 at the beginning of the week up to 78.1 for a 1.7% gain. True to form, the equity markets lost ground for the week, with the Dow losing 252 points for a 2.2% loss.

The pattern we've been discussing for weeks continues. Just remember, if the Dollar pops, the markets drop. Conversely, if the Dollar drops, the markets pop. That's all you need to know. It really is ALL about the Dollar at this point in time. While most of the G20 countries continue to publicly [complain about QE2](#), the Federal Reserve, as if to prove to the world it can and will, released the schedule of upcoming POMO auctions. The schedule is:

November 12,15,16,17,18,19,22,23,29,29(again!),30

December 1,2,3,6,7,8 and 9.

For eight straight business days in a row, from November 12 to November 23, the Federal Reserve is going to conduct POMO operations and inject a total of \$105Bn Dollars into the pockets of the "Primary Dealers" on Wall Street. These new POMO operations are going to be larger than recent actions, rather than offering \$2.5Bn twice a week the Fed will be offering up to \$8Bn or \$9Bn daily on twelve days between November 12 and December 9, 2010.

How much money is 8Bn Dollars? Phil makes the following calculations:

- It's enough to pay 5.33M \$1,500 Mortgage Payments - enough to make one month's payment for every home in America!
- It's enough to buy out 40,000 \$200,000 Mortgages.

- It's enough to pay a full year's \$50,000 Salary for 160,000 workers. In a single month, the Fed could put 4.8M people back to work rather than flushing it back through the banks and Treasury in the hopes that a few jobs will trickle down to the people.
- It's more than the **ENTIRE Federal Education Budget for 2010 EACH MONTH!**
- It's the ENTIRE EPA budget for the year EACH WEEK. Also EACH WEEK, it's the ENTIRE budget for the Department of Labor or the Department of Commerce for the year. If you want to create jobs - perhaps we could send a few dollar their way instead?
- Every 2 Weeks it's the ENTIRE budget of the DOE, HUD or Homeland Security.
- EVERY WEEK it's also the ENTIRE budget of the Department of the Interior, NASA, the NSA or the SBA (oh yes, we really care about small business, don't we?).

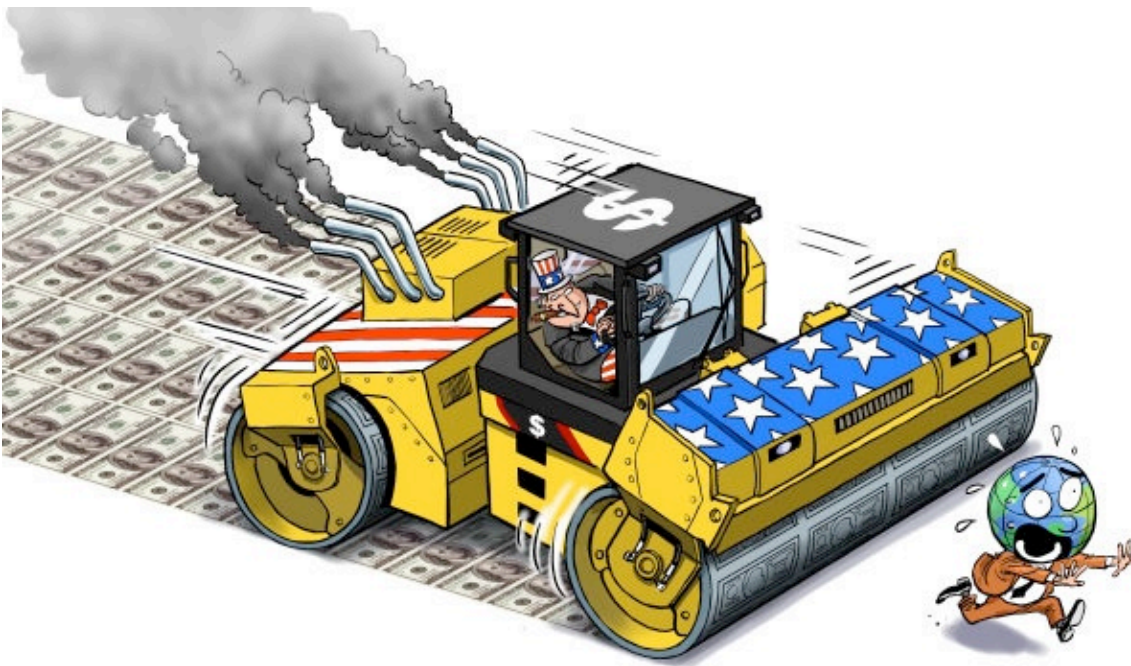
Hopefully we have made our point that eight billion dollars is a lot of money. This is how much money the Fed intends to spend on just one day, Monday, November 15th. A grand total of \$105 billion distributed over 18 POMO days is a truly staggering sum, and this is just the opening salvo of QE2.

The rest of the world is not happy about this action by the Fed and the impact it is having on the global economy. The G20 met in Seoul this week, and a number of finance ministers from other countries took the opportunity to complain about QE2. The head of Brazil's central bank complained that *"QE creates excessive liquidity that flows over to countries like Brazil."* South Korea has warned that it is "aggressively" considering taking steps to curb capital inflows.

China is particularly displeased with QE2. Zhu Guangyao, vice finance minister said that the U.S. *"Did not recognize its responsibility to stabilize markets and did not think about the impact of excessive liquidity on emerging markets."* An article in China's People's Daily stated *"Since the U.S. dollar is the world's leading reserve currency, or anchor currency, the United States' over-*

*relaxed monetary policy will have a serious negative impact on the global economic and financial order."*

We remain bearish in our overall outlook on these markets, and we are maintaining our position of being mostly in cash and continuing to keep a very close watch on the Dollar.



# Monday Market Movement



Repercussions from the launching of QE2 continued to impact markets. Officials from Brazil, South Africa, China and Germany were among those expressing concerns that QE2 could weaken the dollar, drive up commodity prices and send enormous quantities of investment funds into emerging markets. (Reuters, reporting on the G20 summit this week.)

## Inside Chat - QID:

Maya asked Phil: *"Each morning I have been reading your commentary and telling myself you are right, for the past 4 weeks. Yet the markets have continued to move up. This reminds me of the disbelief in the summer of 2009, with the rise in the SPY from 680 to 900. My question is what INSURANCE do you recommend now to protect against a 10% drop? Please keep it simple."*

Drop insurance/Maya - Well, make sure you REALLY need it but I still like the QIDs (and they are kind enough to bounce back up now after a good drop off Friday's open. You can sell the Apr \$13 puts for \$2 and buy 2x the Jan \$11/14 bull call spread for \$1. So let's say you short 10 for \$2,000 and you buy 20 bull call spreads at \$2,000. If QID goes back to \$14 (where it was in early October) you cash out \$6,000 less whatever you have to buy back the puts for (if you decide to). If QID drops you can stop out of the bull call spread at .50 and recover \$1,000 and then you lose only \$1,000 times whatever amount of dollars lower than 12 QID ends up (but of course you can roll) so let's say you are risking \$2K to make up to \$6K - that's a good risk/reward, isn't it? This makes a huge amount of sense if you are actually protecting Nasdaq longs and even if QID is put to you at \$8 in 2012, it's still going to make nice protection against your broad portfolio.

The April \$13 puts fell to \$1.50 at Friday's close and the Jan \$11/14 bull call spread rose to \$1.34 for a .84 gain on the spread so far.

The Dollar Index, which tracks the U.S. Dollar against currencies of six major trading partners, slipped 0.9 percent in the week ending November 7th and is down 13 percent since this year's June 7th peak.

Bloomberg reported that hedge funds are ramping up bullish bets on oil, with the Commodity Futures Trading Commission reporting a new record for so-called net-long positions. *"It's all about the dollar being debased,"* said Mike Armbruster, co-founder of Altavest Worldwide Trading in Mission Viejo, California. *"You're going to see managed money take its cue from the dollar. If the dollar continues to weaken, you'll see them continue to go long oil."*

JPMorgan Chase & Co. and Bank of America Merrill Lynch last week forecast that oil may return to \$100 a barrel for the first time since the 2008 financial crisis. As oil hit \$87.50 in overnight trading Sunday morning, Jennifer Fan, portfolio manager with Arrowhawk Commodity Strategies explained, *"whatever QE2 will or won't do in the economy, it will cause the price of raw materials to rise."* Phil disagreed, saying *"People like Jennifer Fan and pretty much everyone at JPMorgan have no clue what the impact of \$87.50 oil is on their limo drivers and thus they can make idiotic predictions like that AND get paid for it. There simply is not enough money in the World to support \$100 oil. We have, Globally, over 10% LESS people working than we did last time oil was at \$100 and this time people can't leverage their home equity lines to pay for gas. Also, \$87.50 oil less 15% dollar devaluation = \$74.38 and that works out to a 100% gain in oil off the '09 lows when priced in Euros or Yen so let's look for an eventual retest of \$75, and that will come really fast if the dollar bounces."*

Ireland's continuing struggles to gain support for a new, austere budget, worries about a key Portuguese debt auction, and political uncertainty in Greece helped to fuel the bounce in the Dollar as the Euro dropped -0.77% versus the Dollar. As

expected, the resulting boost to the Dollar mirrored the drop in equity markets, with the Dow down -0.38% to 11,401 while the S&P was down -0.22% to 1,223 at the close of markets Monday.

Yet even with the Dollar turning around, gold made a new high, breaking an all-time record to close at \$1409.10.

Phil summed up his thoughts on the market expressing caution and taking a wait-and-see approach. *"It's another good week to watch and wait. I still like our various Q plays as the Nas is clearly overbought and my bullish plays would still be financials and slower moving commodities like CHK, VLO, etc. but I expect a pullback in energy so it's really just a defensive long at best. Cash is still king - waiting is the hardest thing an investor has to do but that's the difference between an investor and a gambler."*

As we previously noted back on October 15th, there appears to be a "Beta 3 pattern" (see the chart below) being run by the high frequency trading programs ("trading bots"), and if this pattern maintains its similarity to the April run-up in the markets, then it is reasonable to expect that that the equity markets are due for a correction.

Inside Chat:

Exec asked Phil: *"I can't get bullish either but as someone on the board put it, 'Better to be rich than right' and I'm getting real close to forcing myself to get bullish rather than sit here in cash and watch it erode away. Is your Omega 5 (Beta 3 in this case - ed.) theory still valid? I can't overlay my chart and was wondering if this rally continues to mirror the February run up."*

Better to be rich/Exec - Yes, but until we really break over, this is as likely to be a top as anything else. Invest when you are sure, not when you just don't want to miss out. If the dollar breaks 76, then we're sure stocks will go up until it recovers. That's easy enough to wait for isn't it? If copper breaks \$4 or oil breaks \$87.50 or gold \$1,400, then we have good signs that money is continuing to pour in and we can make some bullish bets to cover the moves up but if you know that one bad article in the WSJ can tank this market - then why roll those dice on trades you don't believe in?



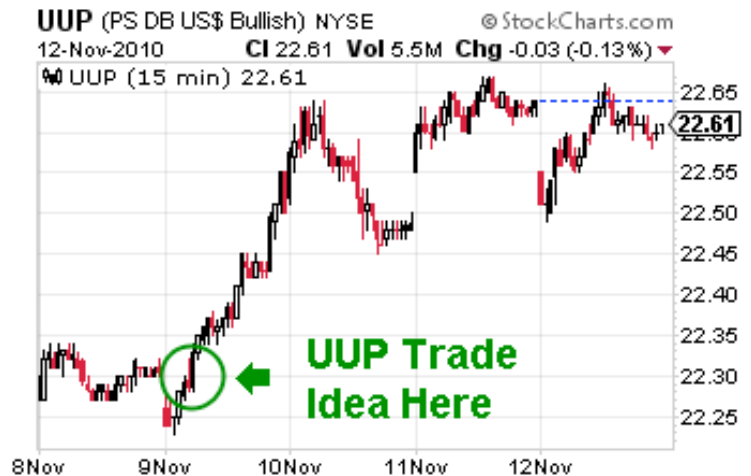
# Testy Tuesday - Dollar 77 Edition



On Tuesday the Dollar opened the day at 77.2 and closed the day at 77.8, gaining 0.8% on the day. Meanwhile, the S&P was down by -0.8% and the Dow was down by -0.53%.

The impact of QE2 on the rest of the world continued to be the topic of the day. Chen Deming, Commerce Minister for China, [spoke at a trade fair in southern China](#) where he said *"Because the United States' issuance of dollars is out of control and international commodity prices are continuing to rise, China is being attacked by imported inflation. The uncertainties of this are causing firms big problems."*

Sri Mulyani Indrawata, a managing director for the World Bank, [expressed her concerns](#): *"The quantitative easing will create a lot of liquidity flooding to the East Asia Pacific region, because it is the most dynamic and attractive with a higher return on investment."* She then spoke in favor of imposing controls on capital flows into developing



economies, saying *"In 1997-98, the words 'capital controls' were forbidden and stigmatized. Now the problem of capital is so systematic and huge globally, it has now become universally acceptable to have a certain type of temporary capital controls."*

Mark Fisher commented on QE2 during an appearance on CNBC. Some key highlights, [as reported by Zero Hedge](#): *"QE2 can't end right. Worthless paper after endless paper.... What's good for the equity markets is not necessarily good for the economy."*

*"The equity markets are not going to create jobs. If you have a paper bag full of money are you going to go out and hire workers and take risk with healthcare and all these other regulatory restrictions? No, you are going to go ahead and buy high yield, you will buy equities, you will buy risk assets."*

*"The fallacy in the whole thing is that you are not going to go ahead and create jobs just by pushing up the market by 20%, 15%. In fact, to some degree by pushing up commodity price to levels that are going to be obscene, which is what is going to happen, you are hurting everybody in mainstream America..."*

## Inside Chat - UUP:

Tuscadog asked Phil: "Do you still like the Nov \$22 UUP calls for a Dollar bounce? I don't see anything positive happening in the US and QE2 is flowing into commodities and overseas, so that just leaves Japan action or another Euro fringe blow up as the catalyst?"

UUP/Tusca - Yes, Bernanke gave it his best shot and the buck didn't break yet but it's very dangerous ahead of the G20 this weekend. I'd pair buying the Dec \$22 calls (.49) with the sale of the Jan \$22 puts (.33) so you are in at net .16 with no premium to the upside and no limit on the gain.

*UUP December \$22 calls at ended the week at .71 and the Jan \$22 puts were at .23, making the net .16 entry now .41, up 156% in 3 days.*

*"If you have all this money coming into the system, and this money stays in the equity and commodity markets, when at some point you take this money out of the system, where is this money going to come out of? Parabolic moves have Parabolic corrections. This is going to end bad. It is not a matter of if, just a matter of when. This is going to be the ultimate bubble, this is going to make 2000 look like a cakewalk. This is going to be the bubble of all bubbles."*

Cisco reported earnings after the markets closed on Tuesday. Earnings beat expectations by two cents, and revenues were in line. But the company's gross margin came in at 62.8%, considerably lower than the 64% whisper number. This, combined with a statement in Cisco's earning report that capital spending was moderating in some areas of business, led investors to pummel CSCO, which dropped from \$24.50 all the way down to \$20.50, for a 16% loss.

According to Cisco's CEO John Chambers, governments in Europe, Japan and some US states cut back on equipment purchases as their budgets were reduced. State government orders fell 48% in the last quarter, as compared to the same quarter a year ago. Erik Suppiger, an analyst at Signal Hill Capital Group LLC in San Francisco said *"Cisco's broad market presence leaves it highly exposed to*

#### Inside Chat - TZA:

Exec asked Phil: "I'm tempted to buy a bit of TZA. Your thoughts?"

TZA/Exec - TZA Dec \$18 puts can be sold for \$1 and that helps pay for the Nov \$18/20 bull call spread at \$1.15 for net .15 on the \$2 spread that's \$1.73 in the money at the moment.

*The TZA Dec \$18 puts fell to .78 and the Nov \$18/20 bull call spread is now \$1.50 so net .72 is up .57 (380%) in 3 days*

#### Inside Chat - CIM:

Datuu asked Phil: "I own a RIG 2012 45/60 Bull Call spread, the stock is up nicely to \$69.68 and I believe that long term it will go higher. Do you know anything about CIM? It has an 18% dividend and is managed by the fine folks of Annaly"

CIM/Datuu - Is a pretty good company but you do realize that Chimera means "a foolish fantasy," right? Kind of hard to trust people who pick that name for a public corporation but they do pay those dividends (about .18 per Q) so what's not to like? They are also kind enough to have options all over the place so I like buying them for \$4.02 and selling the Dec \$3.50 calls for .55 and the June \$4 puts for .50 for net \$2.97 and, of course, your hope is that you will roll the Dec calls out and up while you collect your dividends.

*This trade idea is still available at the same net entry.*

*macroeconomic trends, which have not been favorable."*

Phil posted a special feature on Tuesday titled "Spinning Straw Trades Into Gold - Part 2". In this feature he discusses some trade ideas designed to profit should gold continue to increase in value. Phil mentioned the ABX option play we featured in last week's newsletter, and also talked about some trade ideas on NAK and HMY, and [how to use his buy/write strategy](#) to buy into stocks at a discount.

Oil continued to present trading opportunities. Phil talked about his "standard short on the oil futures." He wrote *"In Monday's post I reminded you about our \$87.50 short on oil futures and we hit it again this morning and that's exactly what I said would happen in my 2:21 comment to Members when I predicted they would run oil back up into inventories. We LOVE ranges - they are so much fun to play."*

# Will We Hold It Wednesday - The Global Perspective



The upcoming schedule for POMO auctions was announced today--a total \$105Bn worth of purchases over 18 POMO days. We have presented a chart showing the daily auction amounts at the bottom of this page. The smallest auctions will be between \$1bn and \$2bn, the largest will be between \$7bn and \$9bn.

It's not only other countries disapproving our QE2 plans, Sarah Palin [spoke against QE2](#), saying "We shouldn't be playing around with inflation. It's not for nothing Reagan called it 'as violent as a mugger, as frightening as an armed robber, and as deadly as a hit man.' The Fed's pump priming addiction has got our small businesses running scared, and our allies worried. The German finance minister called the Fed's proposals 'clueless.' When Germany, a country that knows a thing or two about the dangers of inflation, warns us to think again, maybe it's time for Chairman Bernanke to cease and desist. We don't want temporary, artificial economic growth bought at the expense of permanently higher inflation

*which will erode the value of our incomes and our savings. We want a stable dollar combined with real economic reform. It's the only way we can get our economy back on the right track."*

The Guardian reported on [growing concerns that Ireland could be forced into a Greek-style bailout](#) by the EU or the IMF, as investors concluded that Irish borrowing costs are so high as to be unsustainable. "Attempts by Patrick Honohan, the central bank governor, to reassure investors by stressing that the Irish government was already planning the tough fiscal measures that the IMF would insist upon backfired, and helped push yields on 10-year Irish bonds up 61 basis points to 8.7%."

Continuing fears about European debt drove investors out of Euros and into Dollars, helping to push the Dollar up, and the stocks market down. QE2 was not working its usual magic (The video [Quantitative Easing Explained](#) provides a non technical introduction to what QE2 is.)

## POMO Daily Auction Amounts (In Billions)



## Thursday - The Fed's Got POMO Fever!



The markets opened sharply down during this Thursday's Veterans Day trading session, with the Dow dropping -0.47% to 11,304 at the opening. The ongoing crisis in Europe continued to push investors out of Euros and into Dollars, resurrecting the dollar and punishing the markets. The chart to the right shows UUP versus INDU. UUP is a proxy for the Dollar, and the chart nicely illustrates how the Dow and the Dollar are moving relative to each other.

Bloomberg reported on the drop in the markets this week: *"Stocks slid, extending the biggest weekly slump in three months for U.S. benchmark indexes, and commodities tumbled amid speculation China will lift interest rates. Irish and Portuguese bonds rose as Group of 20 officials said they're working on ways to resolve the debt crisis... The S&P 500 halted a five-week string of gains, its longest since April. China may increase rates within weeks after inflation accelerated to the fastest pace in 25 months in October, according to a Bloomberg survey."* - Bloomberg, [Stocks, Copper Slide on China Rate Concern; Treasuries Tumble](#).

The fiscal life-support system for Portugal, Ireland, Greece and Spain is now under threat, according to [this article in Bloomberg](#) "the highly indebted nations of the euro area can't survive the deficit crisis without access to central-bank credit."

The push by German Chancellor Angela Merkel to make bondholders pay towards any future bailouts is making investors worry that the rules may be changing for those holding European debt.

French Finance Minister Christine Lagarde was interviewed on Bloomberg television where she said that investors must share the cost of sovereign debt restructurings and that "all stakeholders must participate in the gains and



*losses of any particular situation, there are many, many ways to address this point of principle."*

Risk premiums that investors demand to buy European debt have risen in the wake of this increasing pressure to force bondholders to take losses in restructurings, so-called haircuts. Investors are choosing to move their money into other, Dollar denominated holdings, and this is driving up the Dollar in spite of the negative effects of QE2.

The G20 met in Seoul this week, and as predicted by Yves Smith, *"one clear and immediate effect of QE2 has been to sour relationships with our major trade partners. The Fed announcement produced swift denunciations from foreign finance authorities, who correctly anticipate that a further round of Fed easing will fuel a dollar carry trade, with destabilizing hot money inflows chasing the highest returns in foreign markets. China, Brazil, and Germany were quick to attack the program and some emerging markets have started restricting currency inflows. What is going on here? Bernanke, Geithner, and Paulson famously worked fist in glove throughout the crisis, but they seem badly out of sync now. The ill timed Fed move means that QE, and not any US initiative, will be the focus of the G20 sessions. China is using it as an excuse to torpedo the Geithner proposal."*



# Thank G20 It's Friday - Yet Another Global Cluster F\*ck



Friday was a bad day for those long equities and commodities. The Dow was down -0.8% to 11,193 while the S&P was down -1.19% to 1,199 and the Nas was down -1.46% to 2,518. The 30 year Treasury was down -0.68%, oil was down -3.62% to \$84.63 and gold was down -2.5% to \$1,368.

Nassim Taleb, noted author of *"The Black Swan"* spoke on Bloomberg Television Friday where he criticized QE2 and Bernanke, referring to Bernanke as *"not only the man who crashed the plane but he is back in the pilots seat and he is ignoring risks."*

When asked about risks to the economy, and if these risks are now greater than before with QE2 in place, Taleb replied *"Go talk to a German, particularly somebody who has studied the Weimar Republic, and they'll understand what the risks are. You're short an out of the money option on hyperinflation."*

*"Look at how gold is reacting. The point is that you may print, print, print, or do these devious methods to hide that you're printing, nothing, no effect, just like a ketchup bottle that you're pouring, and nothing's coming out. And then you make a statement like Bernanke that you have evidence that this is working, that there's no risk. Then suddenly, just as with an out of the money option, the whole (bottle of) ketchup (dumps out and) covers everything, the table, your face, everything."*

*"This is the problem of non-linearity. The economics establishment has not been able to understand. Let's go back to the basics. He (Bernanke) did not see the risk in the system before. Why are you listening to him when he is talking about what to do?"*

The G20 meeting in Seoul wrapped up on Friday with the release of a *"Summit Leaders' Declaration"* that included a rather tepid statement promising a *"commitment to ... moving toward more market-determined exchange rate systems, enhancing exchange rate flexibility to reflect underlying economic fundamentals, and refraining from competitive devaluation of currencies"* as part of the *"Seoul Action Plan."*

## Inside Chat:

Phil said: *"I'm liking BA here (\$63.50): Selling the 2012 \$52.50 puts for \$5.25, buying the 2013 \$50/65 bull call spread for \$7.75 for net \$2.50 on the \$15 spread and about \$10 of margin that will be released after the first year if BA holds \$52.50."*

Peedle asked Phil: *"Hi, I'm new to Phil's. What expiration dates on these? Should I know?"*

Peedle / BA - Welcome Peedle! Those are the contract expirations, the BA Jan 2012 \$52.50 puts are sold for \$5.25, that should hit you for about \$5 in margin requirement. The BA Jan 2013 \$50 calls are bought and the Jan 2013 \$65 calls are sold for a net of \$7.75 and that means you have put in next \$2.50 of cash into the trade with about \$10 of margin required to hold the puts (because you used the \$5 of cash you got to buy the call spread). The cool thing about this play is, once the margin is released (assuming it goes well) when the puts expire worthless, you have just \$2.50 at risk with the BA 2013 \$50 call and if BA finished up at \$65 or better in 2013 (and they are at \$63 now) you make \$12.50 or 500%.

Reasonable as that sounds, the headlines coming out of the G20 meeting focused on how deep divisions caused by QE2 prompted the rest of the Finance Ministers to refuse to endorse a push by the US to force China to raise the value of its currency. The European members of the G20 have enough on their plate to worry about already, with their continuing problems with Portugal, Ireland, Greece and Spain, without having to add concerns about ticking off China.

On Friday, Reuters quoted unnamed Eurozone officials saying that Ireland was planning to request aid from the European Financial Stability Facility [EFSF]. *“We will likely find out soon whether this call has been made; but what impact could it have on the dollar?...The dollar’s status as a safe haven is well known. However, we should appreciate that its pure fundamental appeal as a global refuge has certainly diminished over time....That said, should the alarm of crisis be sounded, these issues will be easily ignored. If equities, commodities and debt falter worldwide; US liquidity will look very appealing.”* (US Dollar Recovery can be Sparked by Risk Trends, G20, Euro Troubles) Ireland denies it is in need of a EU bailout, just like Greece did.

European Union finance ministers released a statement early Friday morning designed to calm continuing fears in the bond markets. The statement read:

*“At its meeting on 29 October 2010, the European Council discussed the future arrangements for ensuring economic and financial stability in the European Union.*

*“Whatever the debate within the euro area about the future permanent crisis resolution mechanism, and the potential for private-sector involvement in that mechanism, we are clear that this does not apply to any outstanding debt and any programme under current instruments. Any*

## Watching Must Hold Levels

11/12/10	Dow	S&P	NAS	NYSE	Russell
BREAKOUT LEVELS	11500	1220	2600	7750	725
UP 10% (MUST HOLD)	11220	1177	2420	7500	700
UP 7.5%	10965	1146	2365	7280	672
UP 5%	10710	1123	2310	7140	666



*new mechanism would only come into effect after mid-2013 with no impact whatsoever on the current arrangements.*

*“The EFSF is already established and its activation does not require private sector involvement. We note that the role of the private sector in the future mechanism could include a range of different possibilities, such as a voluntary commitment of institutional investors to maintain exposures, a commitment of private lenders to roll-over existing debt or the inclusion of collective action clauses in future bond emissions of euro area Member States.”*

While this statement achieved its intended effect, with interest rates on Irish 10-year bonds falling to 8.5% on Friday compared to 9.25% late Thursday, it is difficult to imagine the effects of this statement are going to be long lived.

# The Week Ahead



Mish Shedlock, in an article titled “QE II Bet Starts to Unravel” wrote “*Signs in the yield curve, municipal bonds, junk bonds, and commodities suggest the one-way ‘sure thing’ QE II bet has started to unravel.*” Mish then thanked Barry Ritholtz for pointing out the recent [California Muni Bond Shellacking](#), amid growing expectations of “*Munis and California joining Ireland on the default train.*”

After noting the recent drop in commodities, Mish continued: “*It remains to be seen if this is the start of a serious correction or just another dip-buying opportunity (in literally everything), but with sentiment sky-high and nearly everyone believing QE II is a one-way bet, I am more inclined to believe the former. As far as gold goes, I do not expect the shellacking we saw in 2008. In fact there might not be much of a pullback at all. However, I can easily be wrong. As far as equities go, action in junk bonds will be particularly important. If and when the corporate bond market cracks, it will be all over for equities.*”

Gonzalo Lira wrote an [excellent analysis](#) of tidal forces pulling the European Union apart: “*On one end, European governments have taken on debt and liabilities—both public and private—which they cannot possibly meet. These debts and*

*liabilities are near-term enough that there is only one way to characterize many of the smaller European states: They are insolvent.*”

“*On the other end, Europe is unwilling to carry out sovereign default of any one of its member nations. Indeed, there is a sense that – (the) constant drumbeat of the Germans aside – Brussels is unwilling to even contemplate the very notion of sovereign default and debt restructuring. Brussels and the European Central Bank believes in bailouts, not default, because they believe that the entire European project rests on the non-default status of all the EU members. They believe that all EU debt is backed by the entire EU, no matter how irresponsible the EU country that issued the EU debt. As we watch Europe get closer and closer to the Global Depression, we are seeing as these two opposing forces—insurmountable debt vs. unwillingness to default and restructure—pull the continent apart as surely and relentlessly as tidal forces.*” ([The Tidal Forces Ripping Europe Apart.](#))

The events of this week have not changed our cautious, relatively bearish outlook on the markets. We are mostly in cash and keeping a very close eye on the U.S. Dollar. It remains in the spotlight as the key driver of the markets.

Monday 15	Tuesday 16	Wednesday 17	Thursday 18	Friday 19
8:30 AM: Retail Sales	8:30 AM: Producer Price Index	8:30 AM: Consumer Price Index	8:30 AM: Jobless Claims	
8:30 AM: Empire State Manufacturing Survey	8:55 AM: Redbook	8:30 AM: Housing Starts	10:00 AM: Leading Indicators	
10:00 AM: Business Inventories	9:15 AM: Industrial Production	10:30 AM: EIA Petroleum Status Report	10:00 AM: Philadelphia Fed Survey	
POMO DAY	POMO DAY	POMO DAY	POMO DAY	POMO DAY

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