GORDON T LONG

Advanced Technical Analysis

Gordon T Long
Global Macro Research |
Macro-Technical Analysis

Technical Analysis
Market Road Maps | HPTZ
Methodology

SII
Global Macro Research |
Market Road Maps

NOTE

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GLOBAL ECONOMIC PROBLEMS
China, Japan & EU

September 21st, 2022

AGENDA

GLOBAL ECONOMIC PROBLEMS

THE CASSANDRAS

- Political, Corporate & Market Pundits,
- Destabilizing “Flight to Safety”,
- Demographics & Cycles.

CHINA: Can’t Save Us a Fifth Time

- The Chinese Credit Impulse

JAPAN: The Inflation Problem

- The Japanese Carry Trade & Global Liquidity

EU: The Failed Experiment

- An Unprecedented Energy Crisis

CONCLUSION

- Global Stagflation
- Global Conflict

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NOT THE USUAL CASSANDRA TYPES!

- We can count on the normal "Doomsayers"
- But it has become those who talk positively despite problems:
    - Incented to Maintain De-Stability and Optimism,
    - Only hear negative when it is a given

- **INSTITUTIONS**
    - United Nations
    - World Bank, IMF, OECD
- **CORPORATE**
    - FedEx, JP Morgan
- **MARKET PUNDITS**
    - The Ever Positive "Sell" Side Promoters

We're Going Into A Worldwide Recession, FedEx CEO Warns "Numbers Don't Portend Very Well"

*"We are **a reflection of everybody else's business**, especially the high-value economy in the world"*

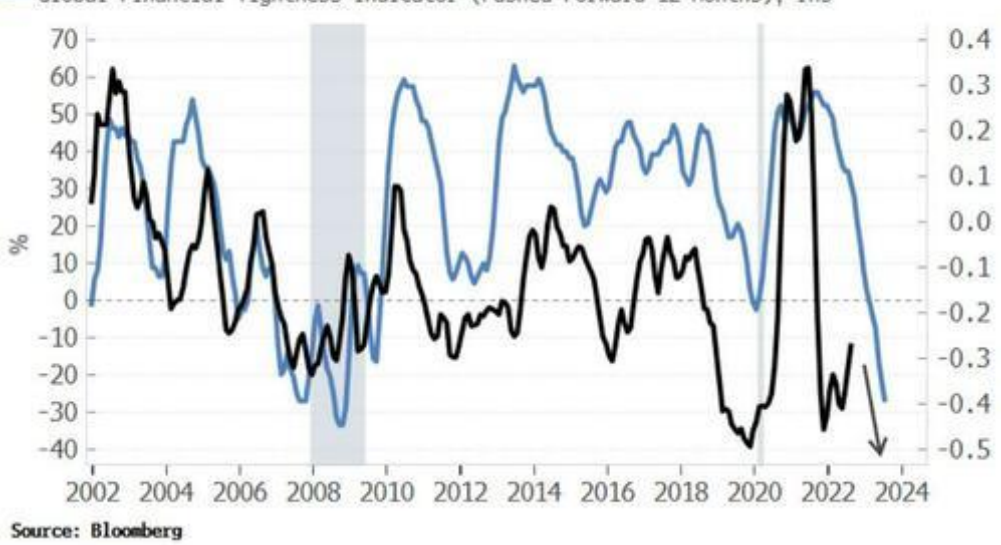
FRI SEP 16, AT 7:25 AM

FedEx Nukes "Economy's Doing Fine" Narrative, Global Stocks/Bonds Lose $4 Trillion In Week

*...quite drop for the **"strongest economic recovery in recent history"**...*

FRI SEP 16, AT 4:00 PM

FedEx a Victim of Tighter Global Conditions

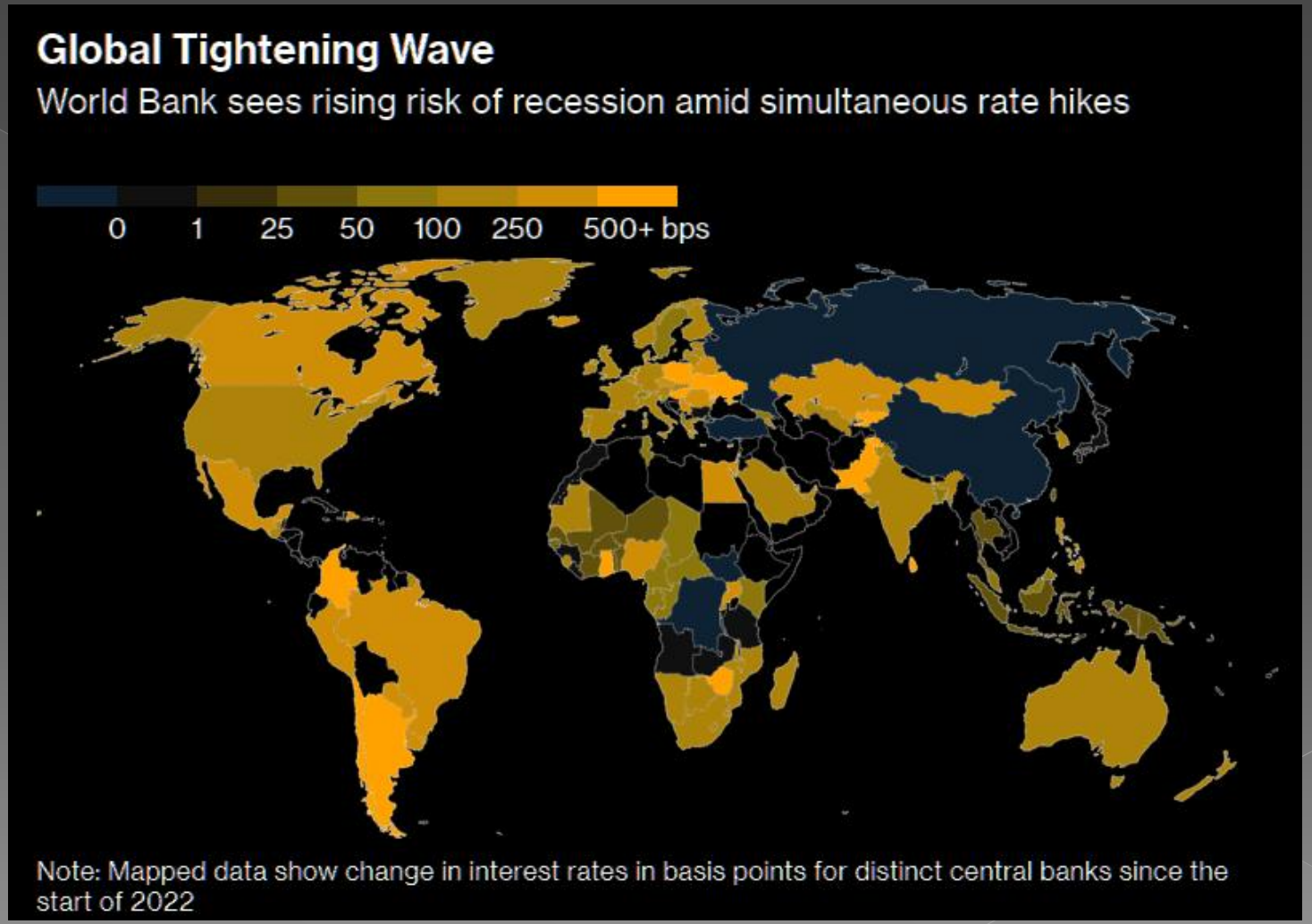


JPMorgan CEO Warns U.S. Is Headed Toward Something Worse Than a Recession

"Production Has Fallen Off A Cliff" - Goldman Reportedly Prepping For Layoffs

*...a round of layoffs that could come **as soon as next week.***

MON SEP 12, AT 10:41 AM


Global Tightening Wave
World Bank sees rising risk of recession amid simultaneous rate hikes
0
1
25
50
100
250
500+ bps
Note: Mapped data show change in interest rates in basis points for distinct central banks since the start of 2022

CNYUSD
Weekly
Resistance
CROSS
CROSS
80 WMA
40 WMA
20 WMA
MACRO ANALYTICS & TECHNICAL ANALYSIS
MATASII
STRATEGIC INVESTMENT INSIGHTS
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0.1640
0.1620
0.1600
0.1580
0.1560
0.1540
0.1520
0.1500
0.1480
0.1460
0.1440
0.1420
0.1400
0.1380
0.00
-40.00
-80.00
4.0000
0.0000
-4.0000
Jul
2017
Jul
2018
Jul
2019
Jul
2020
Jul
2021
Jul
2022
Jul
2023
Jul

MACRO ANALYTICS & TECHNICAL ANALYSIS
MATASII
STRATEGIC INVESTMENT INSIGHTS
Copyright © Gordon T Long
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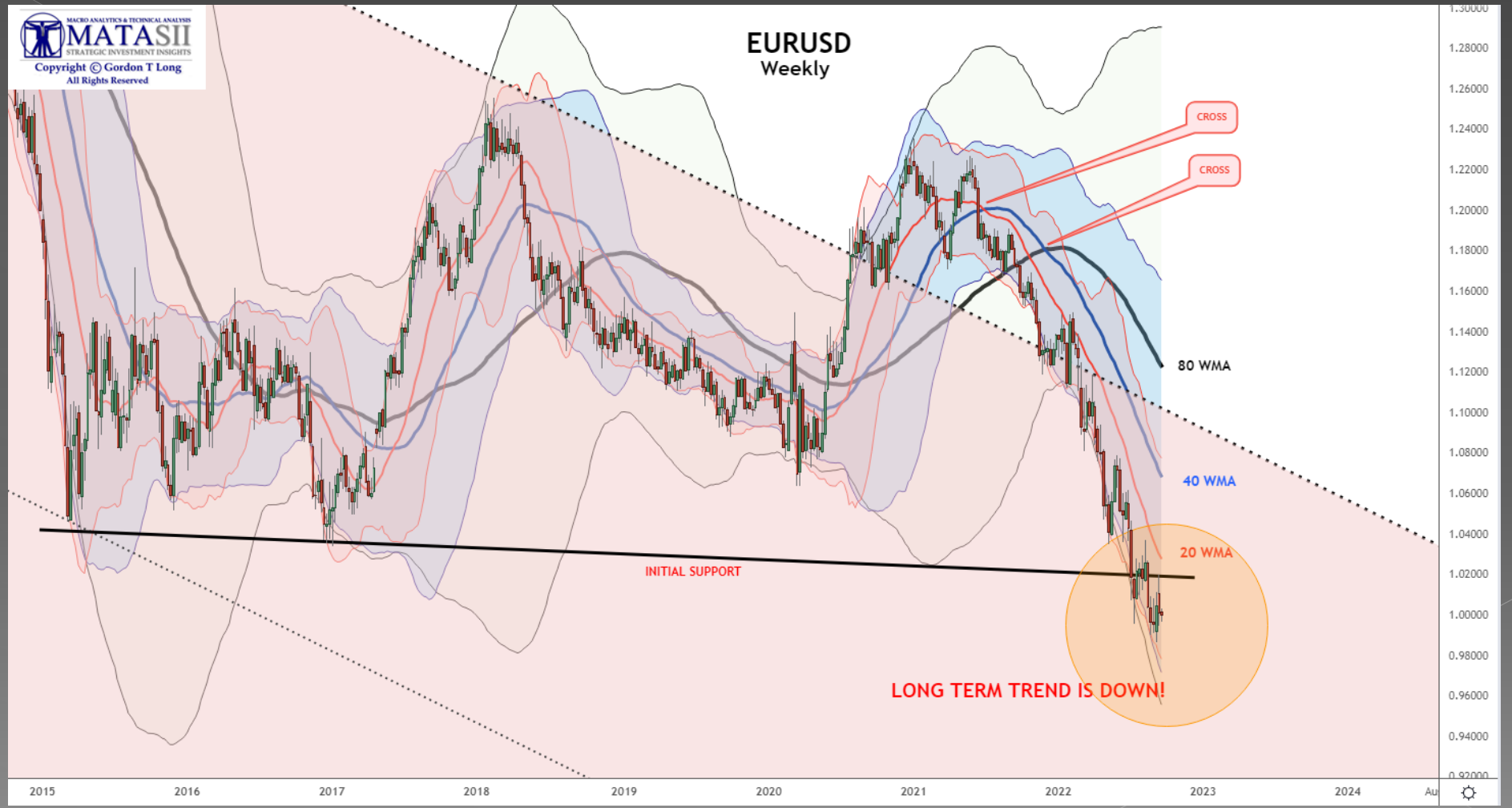
JPYUSD
Weekly
CROSS
CROSS
80 WMA
40 WMA
20 WMA
SUPPORT
0.010400
0.010200
0.010000
0.009800
0.009600
0.009400
0.009200
0.009000
0.008800
0.008600
0.008400
0.008200
0.008000
0.007800
0.007600
0.007400
0.007200
0.007000
0.006800
0.00
-40.00
-80.00
5.000000
0.000000
-5.000000
-10.000000
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024


MACRO ANALYTICS & TECHNICAL ANALYSIS
MATASII
STRATEGIC INVESTMENT INSIGHTS
Copyright © Gordon T Long
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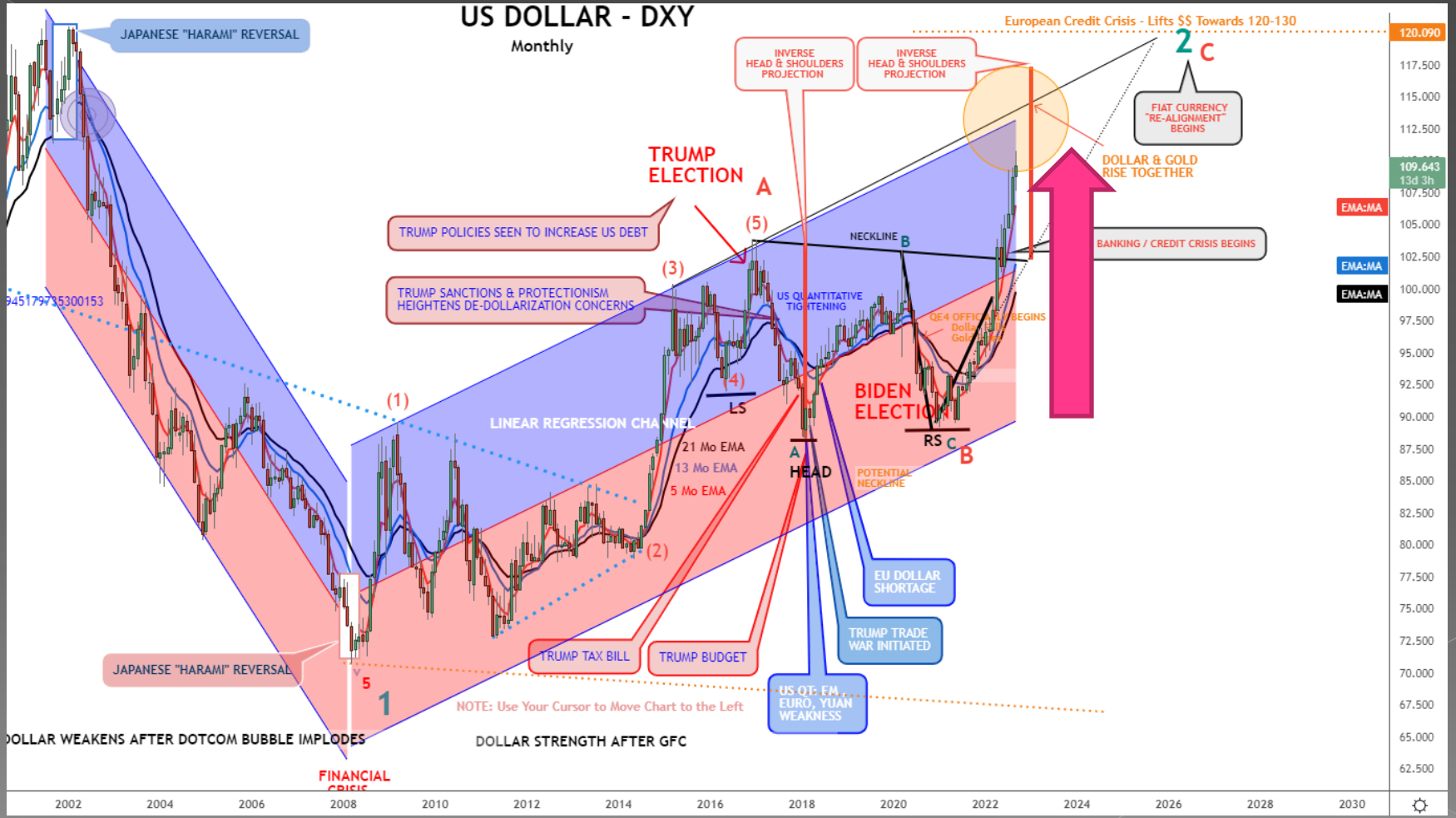
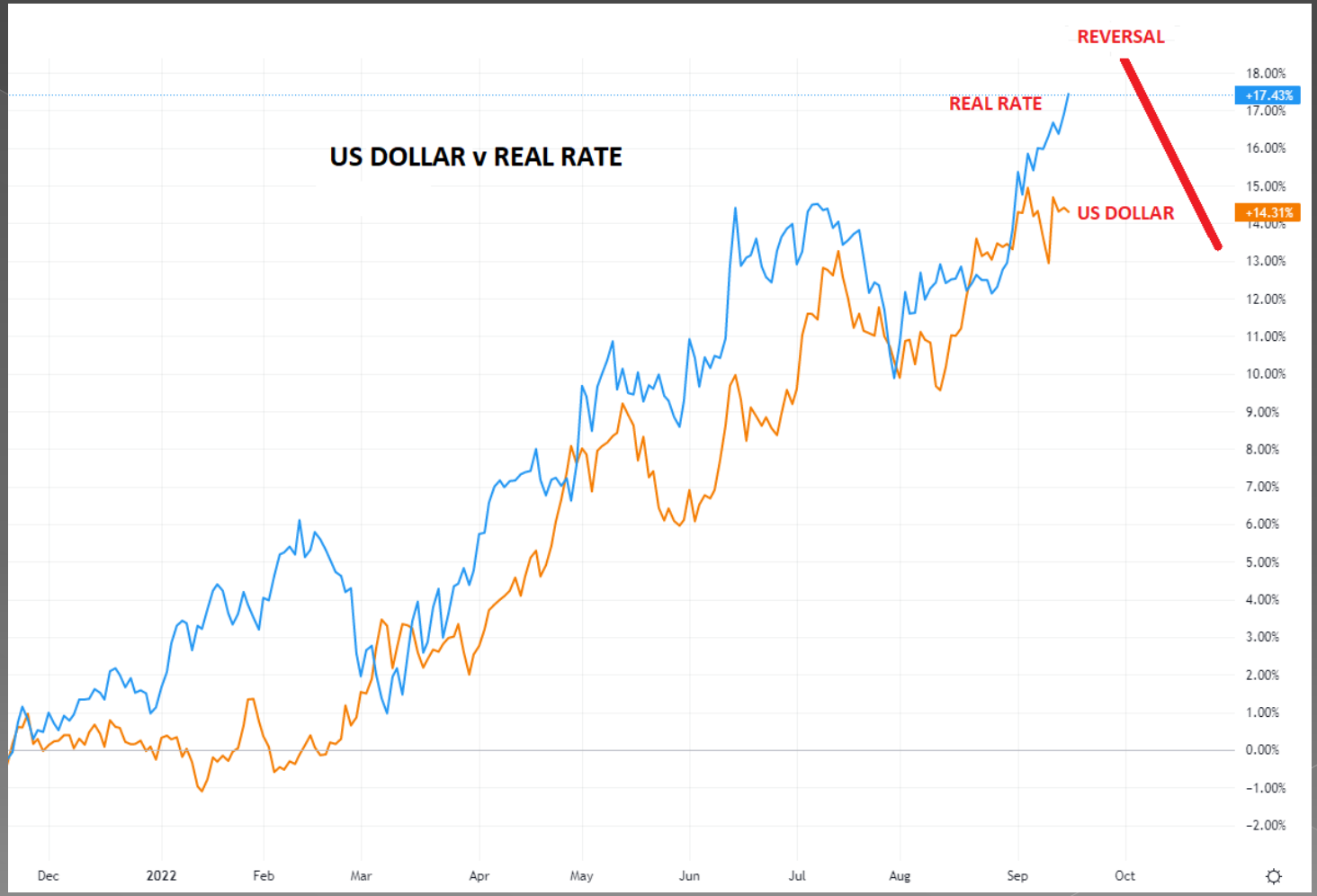
EURUSD
Weekly
CROSS
CROSS
80 WMA
40 WMA
20 WMA
INITIAL SUPPORT
LONG TERM TREND IS DOWN!
1.28000
1.26000
1.24000
1.22000
1.20000
1.18000
1.16000
1.14000
1.12000
1.10000
1.08000
1.06000
1.04000
1.02000
1.00000
0.98000
0.96000
0.94000
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024


US DOLLAR - DXY
Monthly
JAPANESE "HARAMI" REVERSAL
European Credit Crisis - Lifts $$ Towards 120-130
INVERSE HEAD & SHOULDERS PROJECTION
INVERSE HEAD & SHOULDERS PROJECTION
2 C
FIAT CURRENCY "RE-ALIGNMENT" BEGINS
DOLLAR & GOLD RISE TOGETHER
TRUMP ELECTION A
TRUMP POLICIES SEEN TO INCREASE US DEBT
TRUMP SANCTIONS & PROTECTIONISM HEIGHTENS DE-DOLLARIZATION CONCERNS
(5)
NECKLINE B
(3)
US QUANTITATIVE TIGHTENING
BANKING / CREDIT CRISIS BEGINS
QE4 OFFICIALLY BEGINS
(1)
LINEAR REGRESSION CHANNEL
(4)
LS
21 Mo EMA
13 Mo EMA
5 Mo EMA
BIDEN ELECTION
RS C
B
A
HEAD
POTENTIAL NECKLINE
(2)
EU DOLLAR SHORTAGE
TRUMP TRADE WAR INITIATED
TRUMP TAX BILL
TRUMP BUDGET
US QT; FM EURO, YUAN WEAKNESS
JAPANESE "HARAMI" REVERSAL
5
1
NOTE: Use Your Cursor to Move Chart to the Left
DOLLAR WEAKENS AFTER DOTCOM BUBBLE IMPLODES
DOLLAR STRENGTH AFTER GFC
FINANCIAL
120.090
117.500
115.000
112.500
109.643
13d 3h
107.500
105.000
102.500
100.000
97.500
95.000
92.500
90.000
87.500
85.000
82.500
80.000
77.500
75.000
72.500
70.000
67.500
65.000
62.500
EMA:MA
EMA:MA
EMA:MA
2002
2004
2006
2008
2010
2012
2014
2016
2018
2020
2022
2024
2026
2028
2030


US DOLLAR v REAL RATE
REVERSAL
REAL RATE
US DOLLAR
+17.43%
+14.31%
18.00%
17.00%
16.00%
15.00%
13.00%
12.00%
11.00%
10.00%
9.00%
8.00%
7.00%
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
-1.00%
-2.00%
Dec
2022
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct

September 21st, 2022

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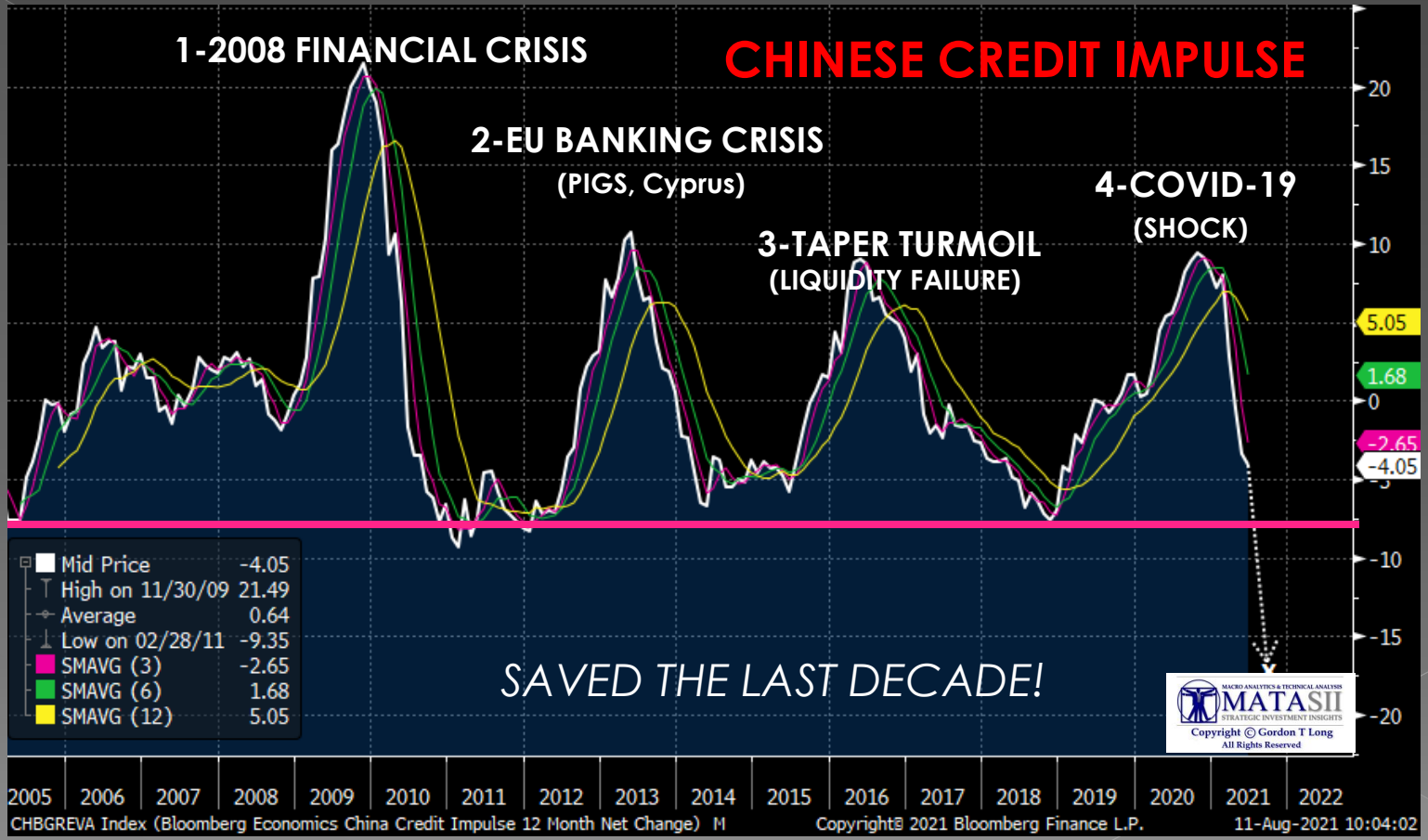
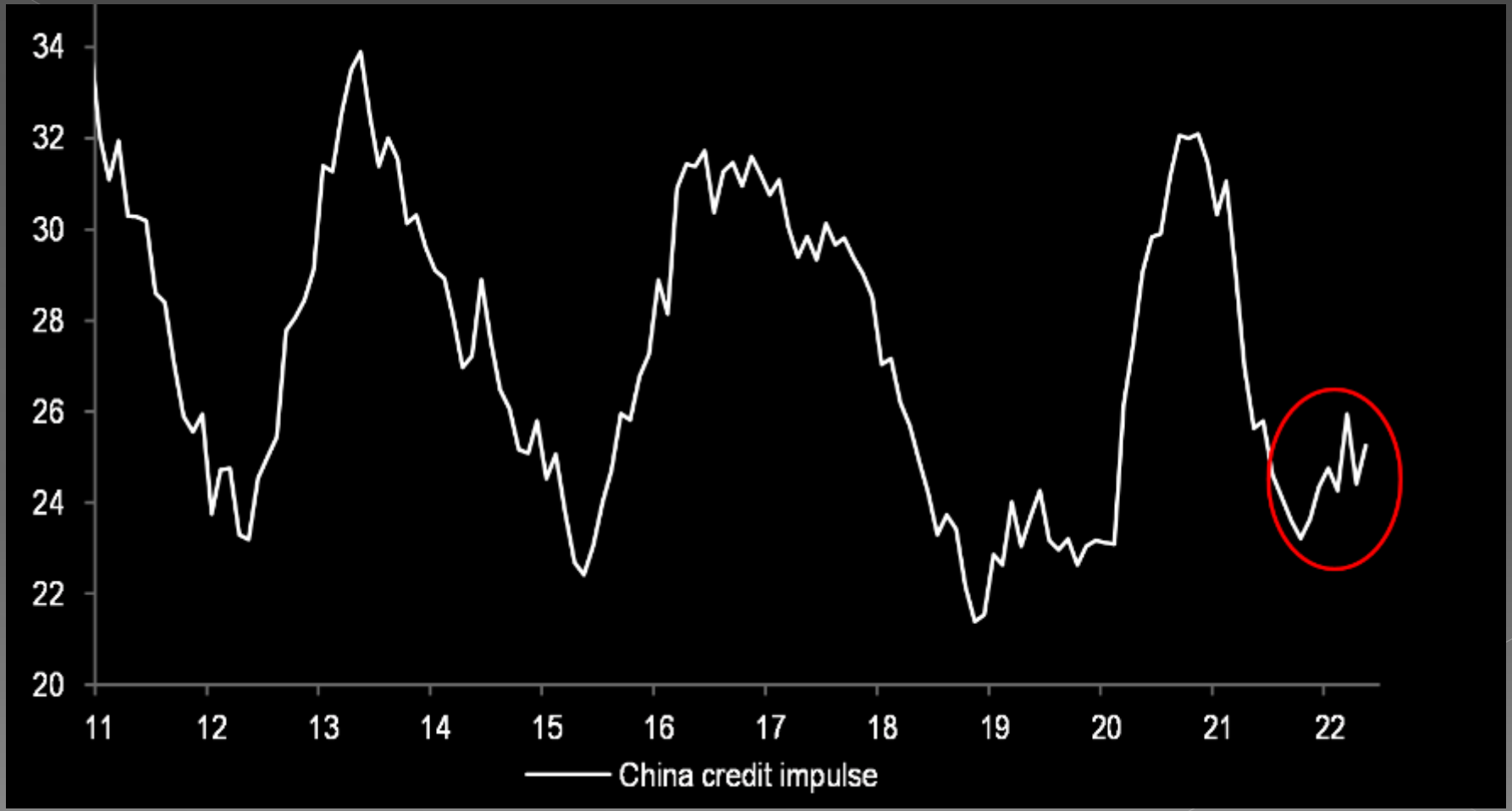
CHINA SAVED THE GLOBAL ECONOMY FOUR TIMES!



KEY MESSAGE

CAN CHINA SAVE THE GLOBAL ECONOMY AGAIN? **NO!**

CAN XI JINPING SAVE CHINA? **MAYBE?**


34
32
30
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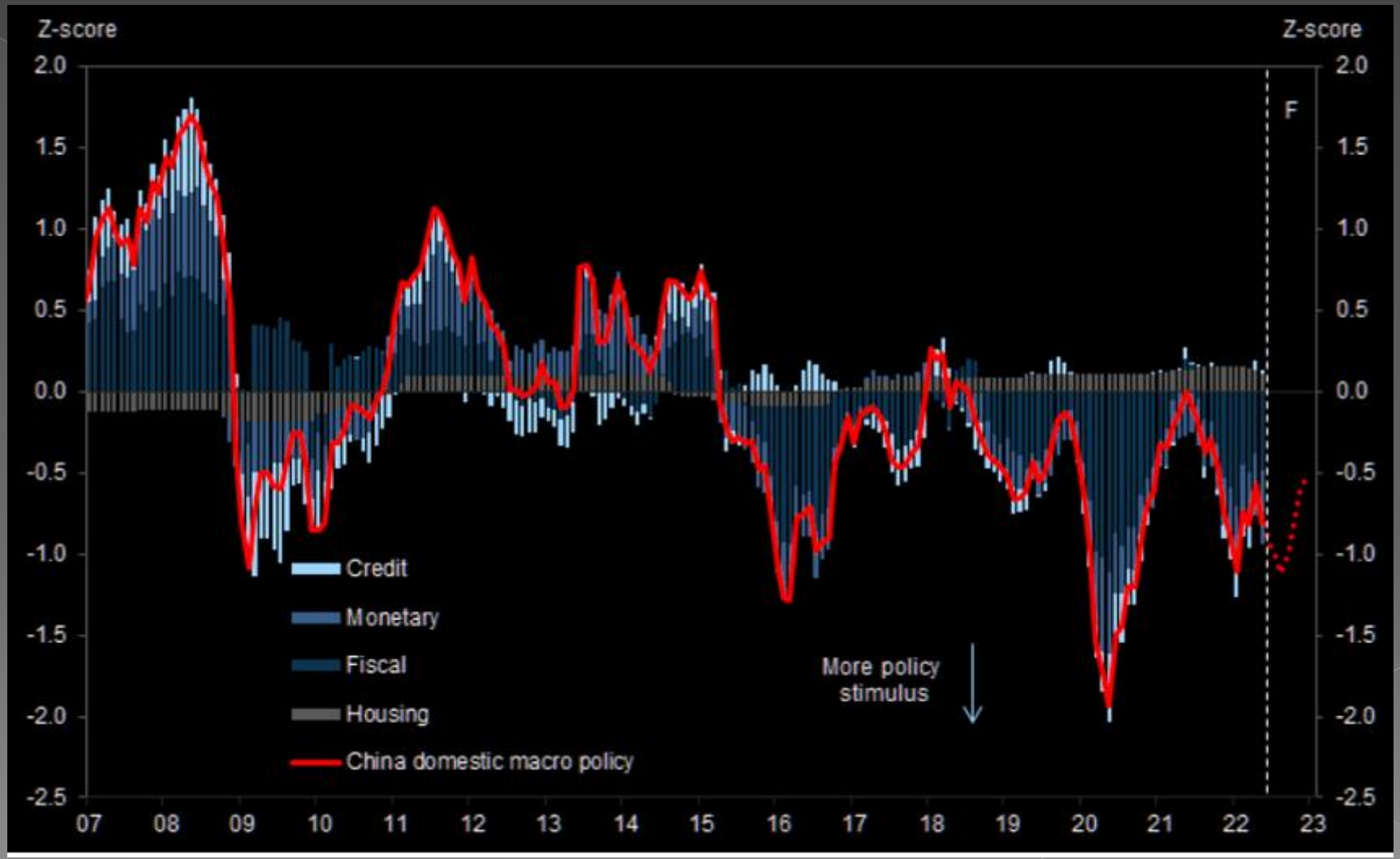
19
20
21
22
China credit impulse


Z-score
Z-score
2.0
1.5
1.0
0.5
0.0
-0.5
-1.0
-1.5
-2.0
-2.5
F
Credit
Monetary
Fiscal
Housing
China domestic macro policy
More policy stimulus
07
08
09
10
11
12
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15
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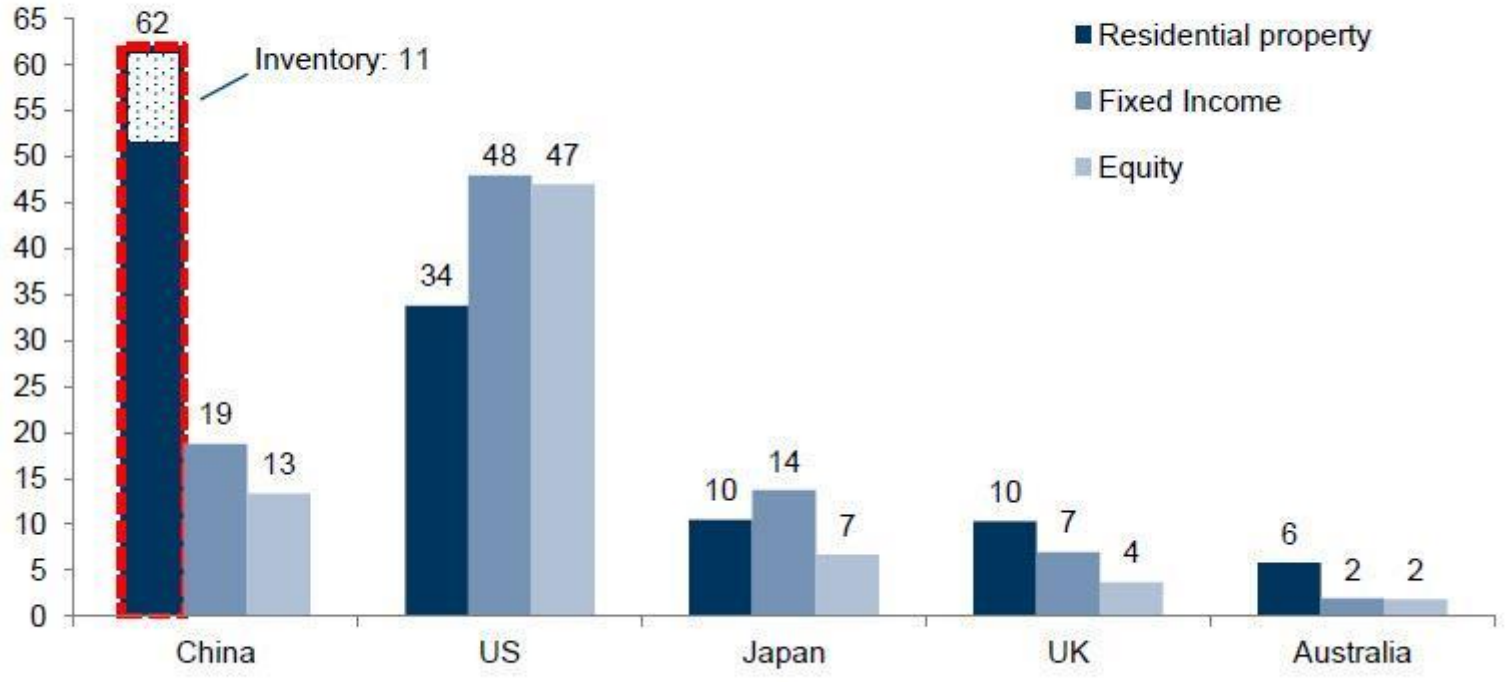
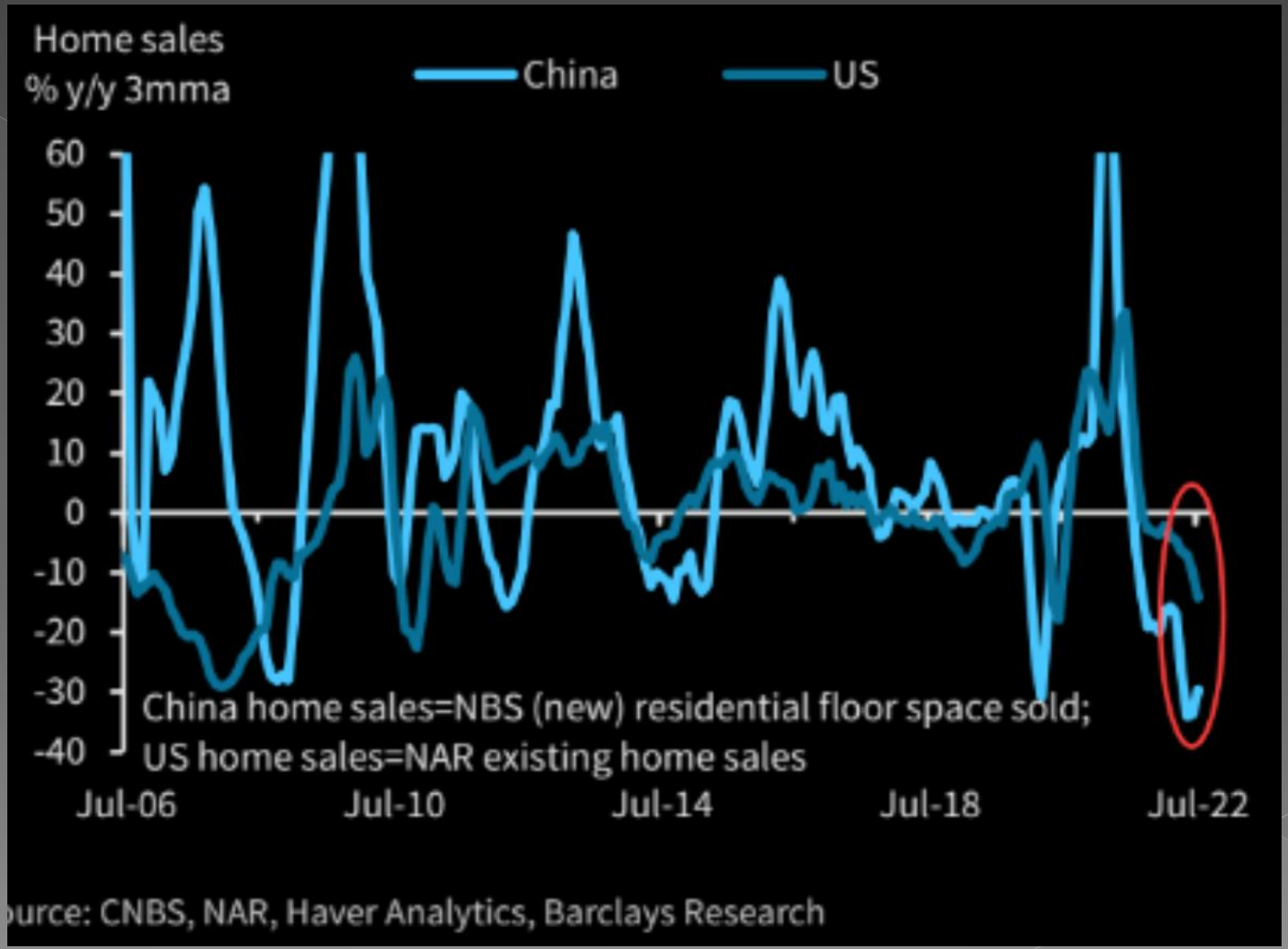
20
21
22
23

The Chinese property market is likely the largest asset class in the world

Total value, US $tn



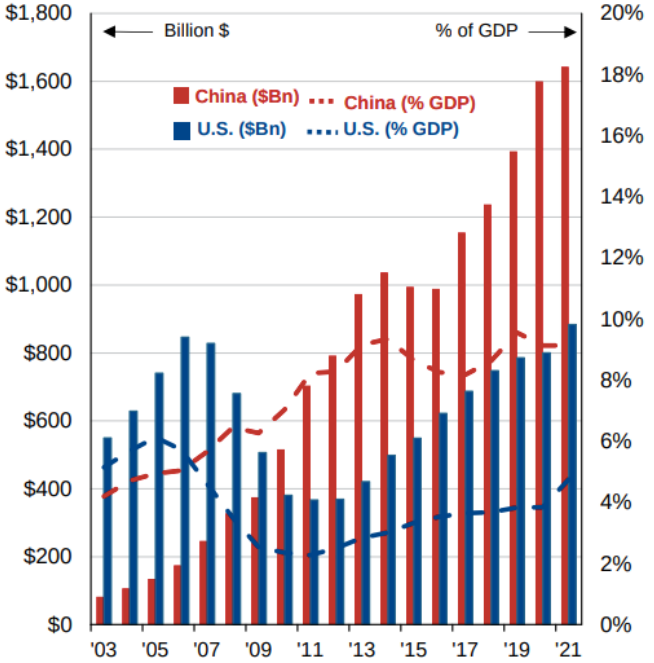
Source: WFE, CEIC, Japan Cabinet Office, Halifax, Goldman Sachs Global Investment Research.


Home sales
% y/y 3mma
China
US
60
50
40
30
20
10
0
-10
-20
-30
-40
China home sales=NBS (new) residential floor space sold;
US home sales=NAR existing home sales
Jul-06
Jul-10
Jul-14
Jul-18
Jul-22
ource: CNBS, NAR, Haver Analytics, Barclays Research

China's housing market in global context

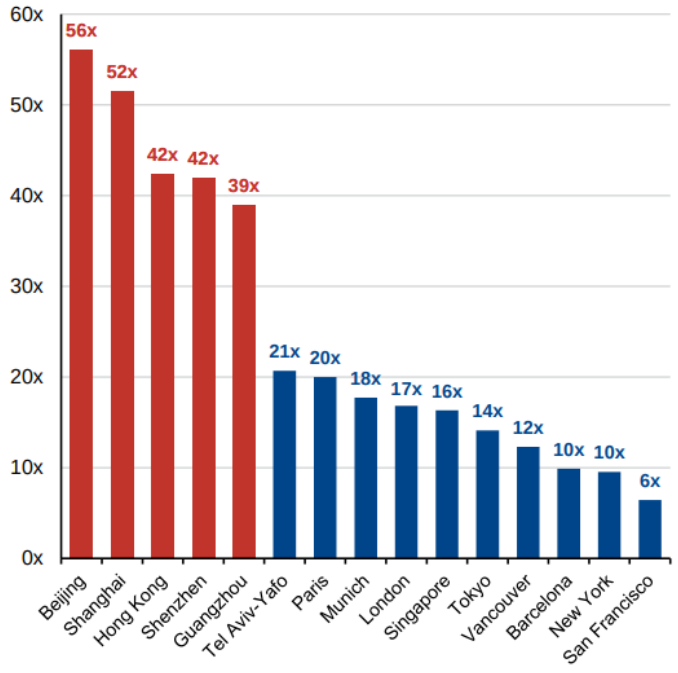
China and U.S. residential real estate investment

USD billions and % of nominal GDP



Price to income ratios for major cities around the globe

Ratio of median apartment prices to median family disposable income, years of income, as of Jun. 2022

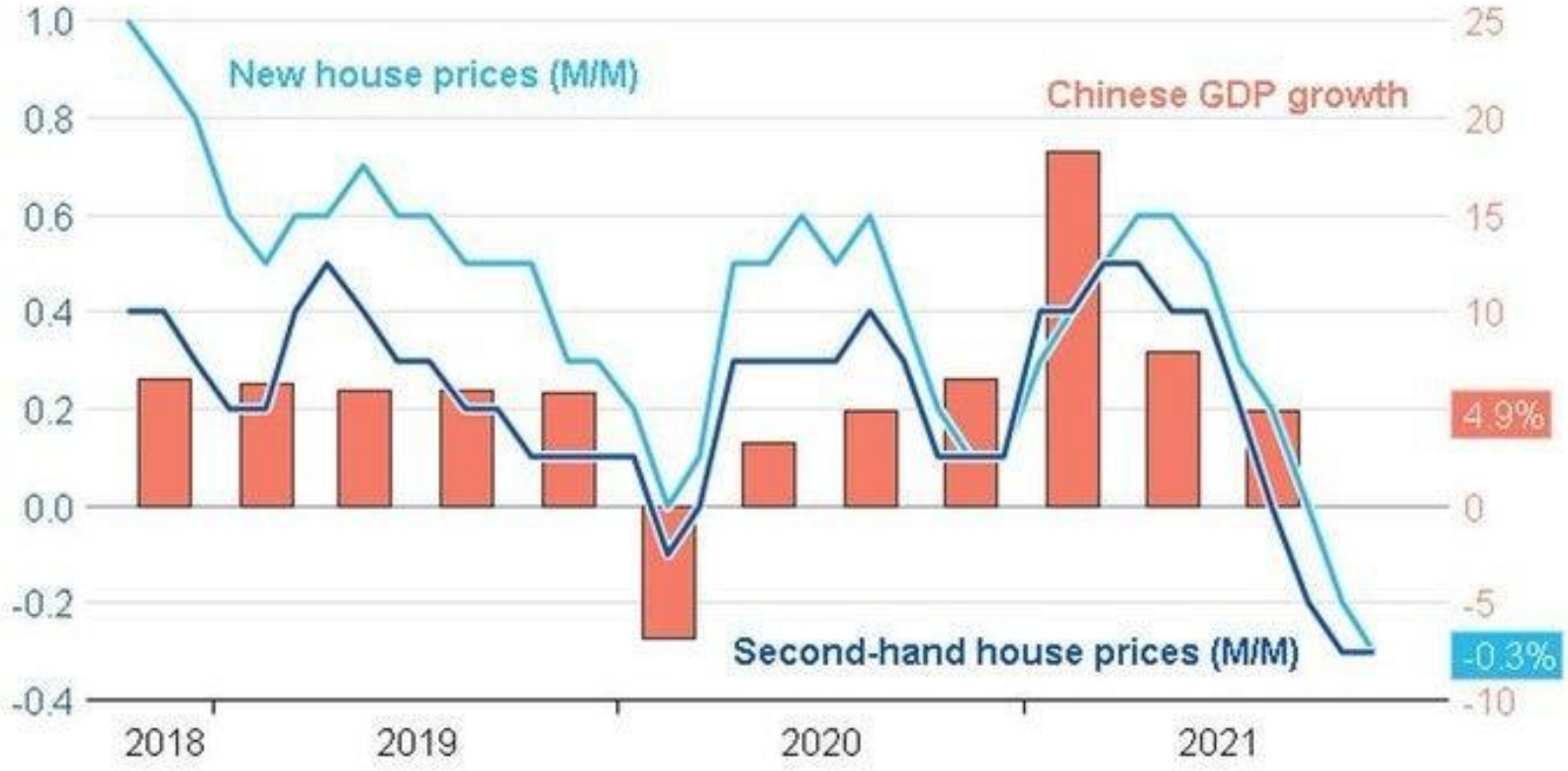


Source: J.P. Morgan Asset Management; (Left) National Bureau of Statistics of China, U.S. Bureau of Economic Analysis, U.S. National Bureau of Economic Research, "Peak China Housing" by Kenneth Rogoff and Yuanchen Yang, August 2020; (Right) Numbeo.
Guide to China. Data are as of July 31, 2022.

J.P.Morgan
ASSET MANAGEMENT

Going down together

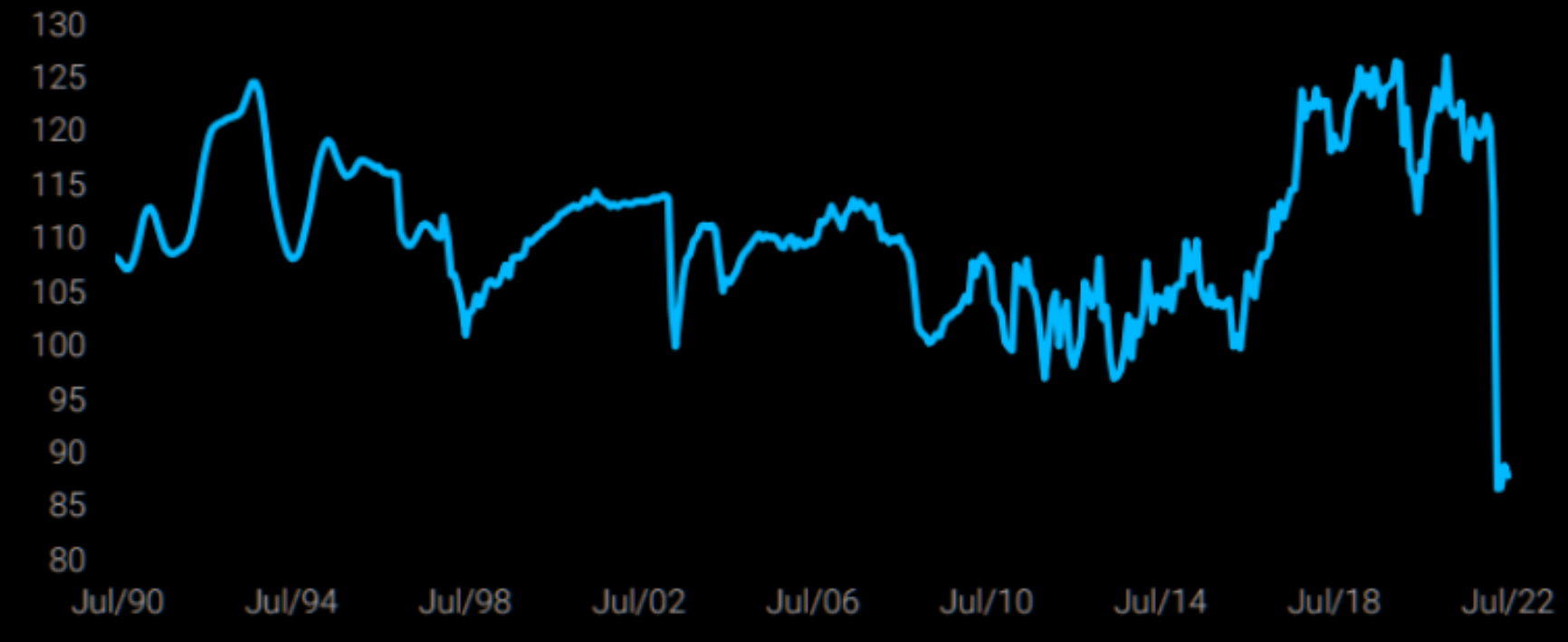
Real estate drives between 25% to 33% of Chinese GDP



Source: Refinitiv Datastream

Pete Sweeney & Vincent Flasseur | @Breakingviews

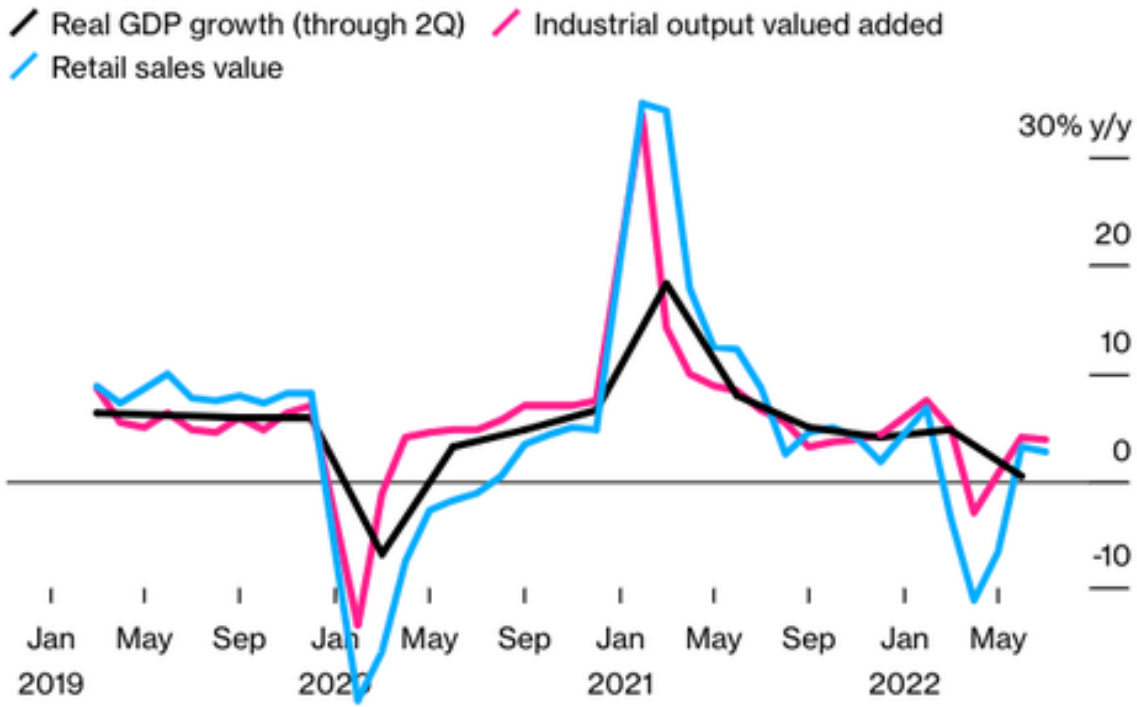
Chart 2: Consumer confidence falls back



Source: NBS

China's Growth Plateaus

Economy slows in July after weakest expansion since 2020 in 2nd quarter

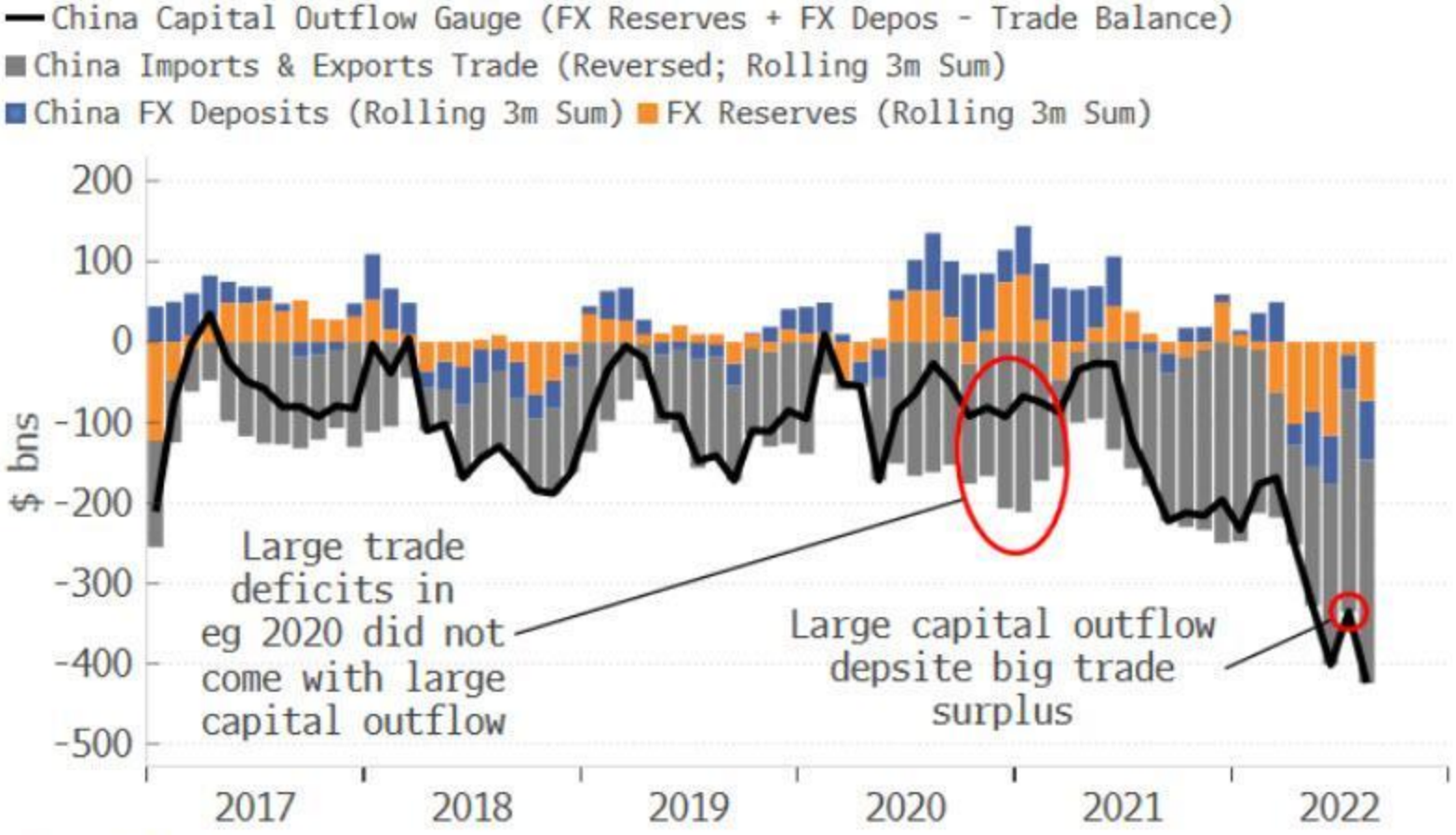


Source: National Bureau of Statistics
Note: February data shows combined results for Jan.-Feb.

ChiNext
China margin trading debt
1.92T
1.91T
1.9T
1.89T
1.88T
1.87T
1.86T
1.85T
1.84T
1.83T
1.82T
1.81T
1.8T
1.79T
1.78T
1.77T
1.76T
1.75T
1.74T
1.73T
1.72T
1.71T
1.7T
1.69T
1.68T
1.67T
1.66T
1.65T
1.64T
1.63T
1.62T
1.61T
1.598T
1.59T
1.58T
1.57T
1.56T
1.55T
1.54T
1.53T
1.52T
Auto
3,850
3,800
3,750
3,700
3,650
3,600
3,550
3,500
3,450
3,400
3,350
3,300
3,250
3,200
3,150
3,100
3,050
3,000
2,950
2,900
2,850
2,800
2,750
2,723.67040
2,700
2,650
2,600
2,550
2,500
2,450
2,400
2,350
2,300
2,250
Auto
01 16 01 16 02 16 01 16 08 18 01 16 01 16 04 17 07 16 01 16 01 18 05 16 01 16 01 18 01 16 01 16 10 17 01 16 01
Jun 21 Jul 21 Aug 21 Sep 21 Oct 21 Nov 21 Dec 21 Jan 22 Feb 22 Mar 22 Apr 22 May 22 Jun 22 Jul 22 Aug 22 Sep 22 Oct 22 Nov 22

SPX
CSI 300
3,872.00
3,936.63260
Auto
Auto
Q4 2018
Q1 2019
Q2 2019
Q3 2019
Q4 2019
Q1 2020
Q2 2020
Q3 2020
Q4 2020
Q1 2021
Q2 2021
Q3 2021
Q4 2021
Q1 2022
Q2 2022
Q3 2022
Q4 2022
Q1 23

Rising China Trade Surplus Leading to More Capital Outflow



Source: Bloomberg

September 21st, 2022

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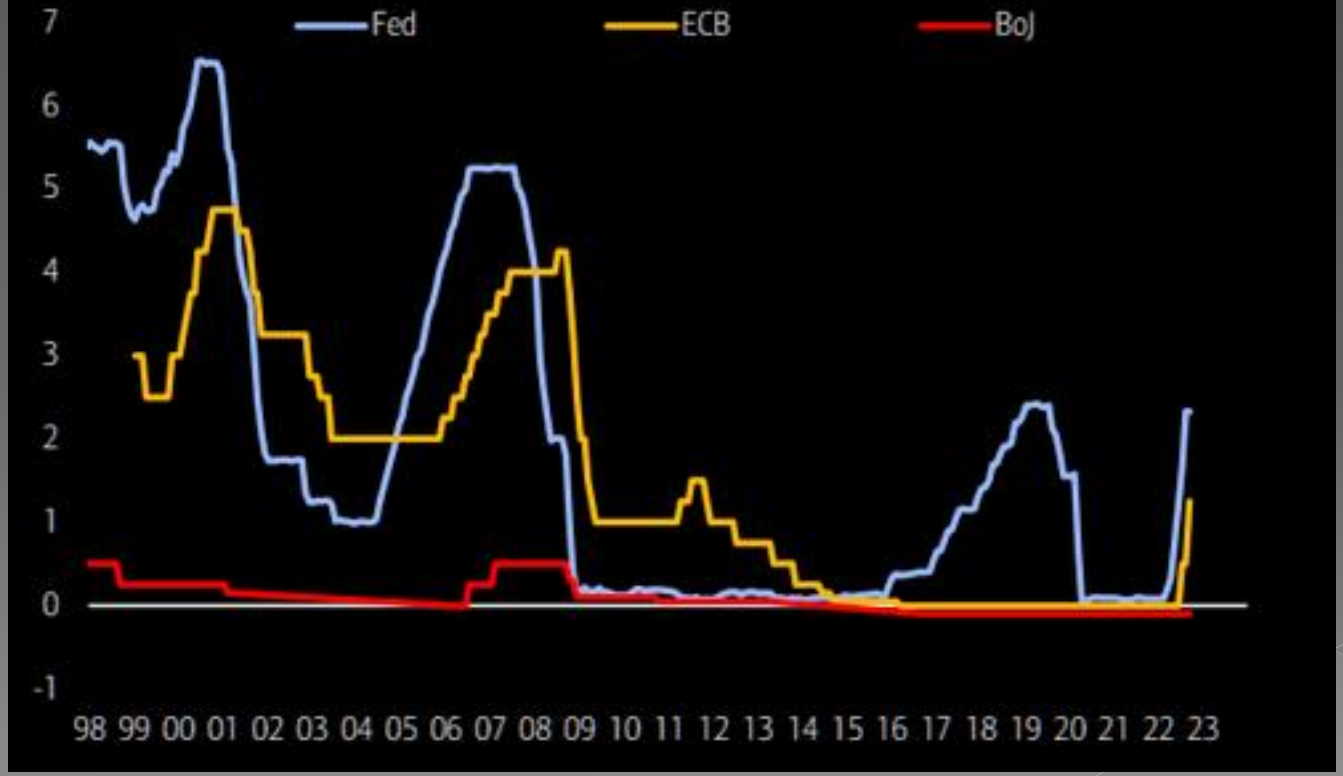
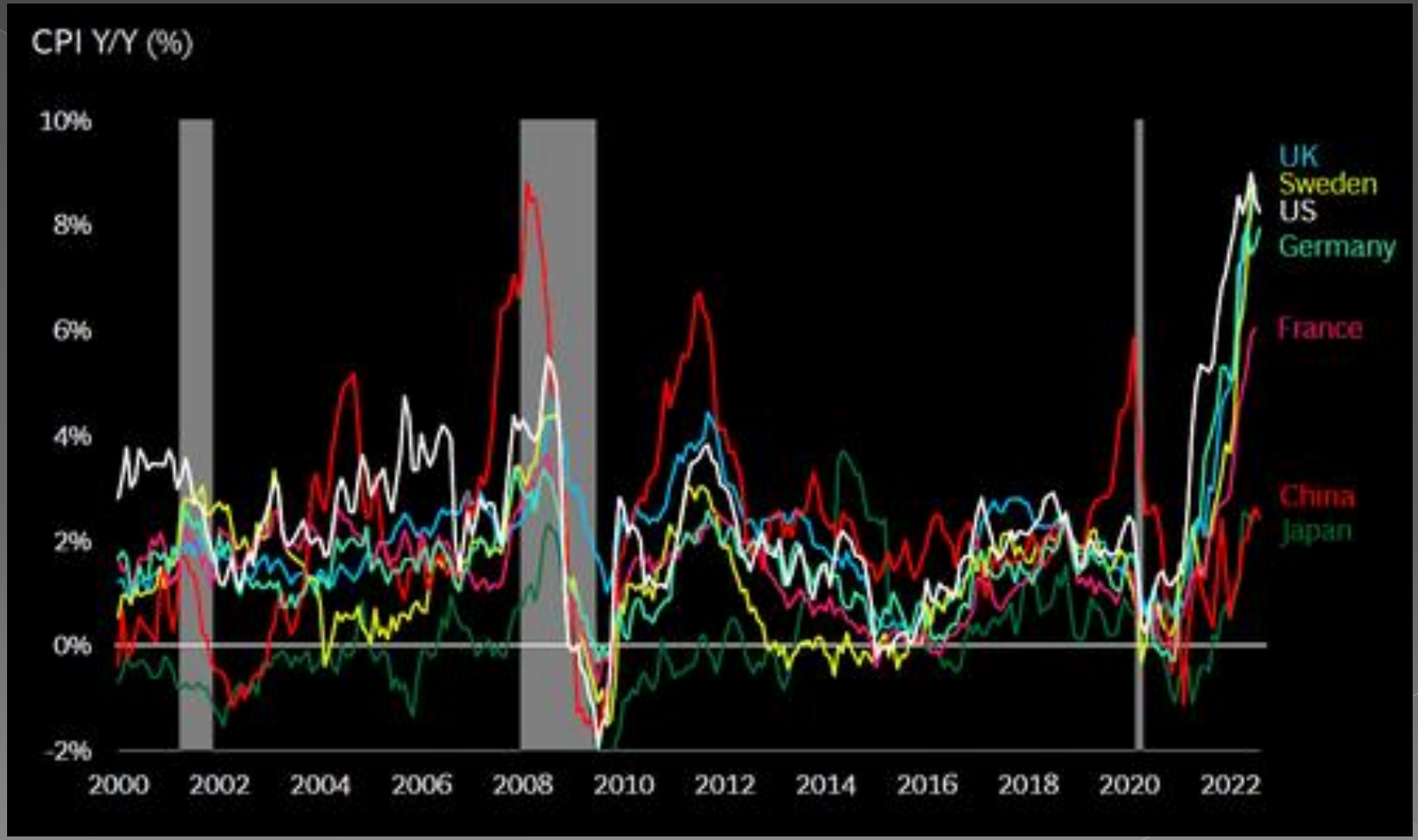
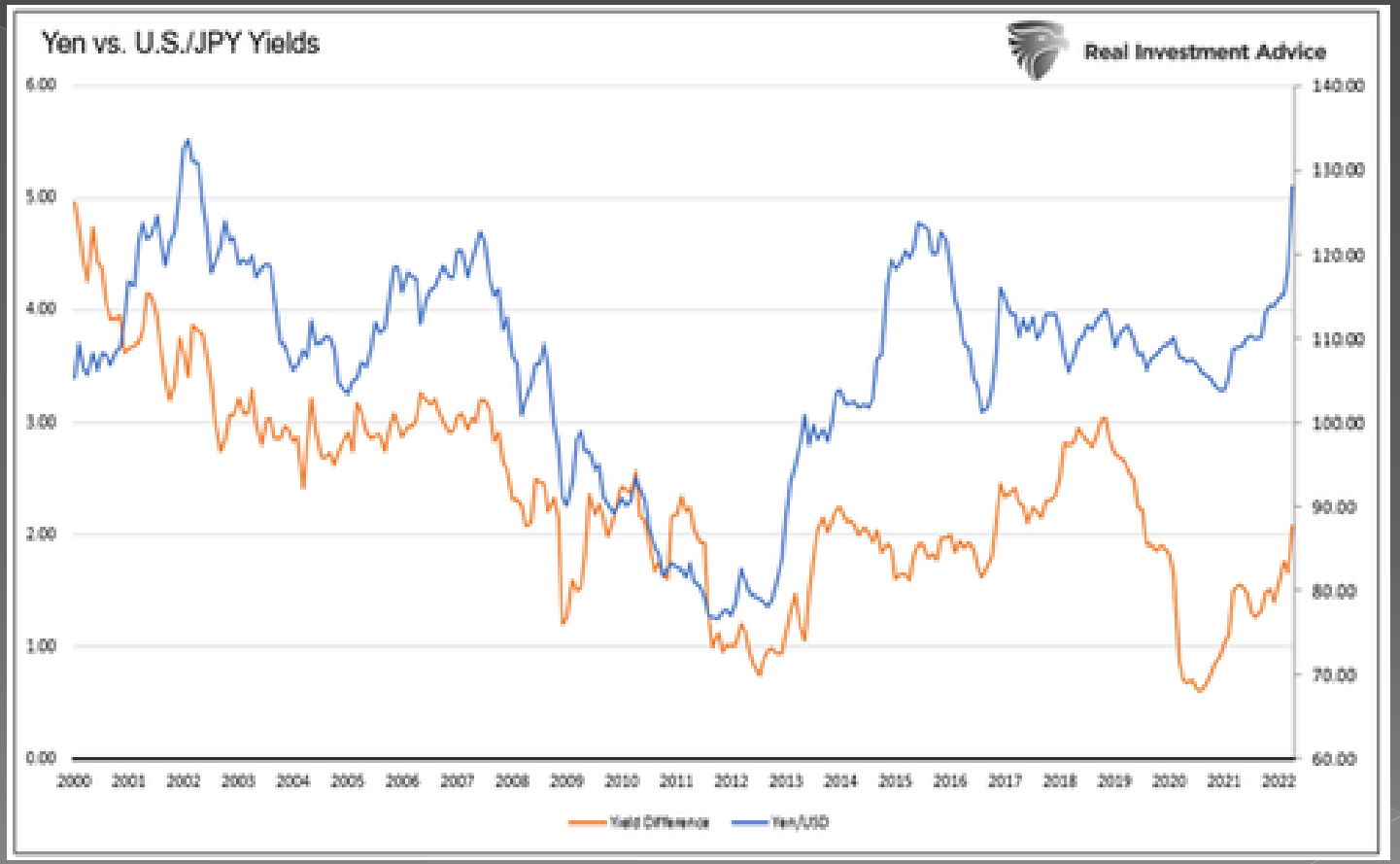
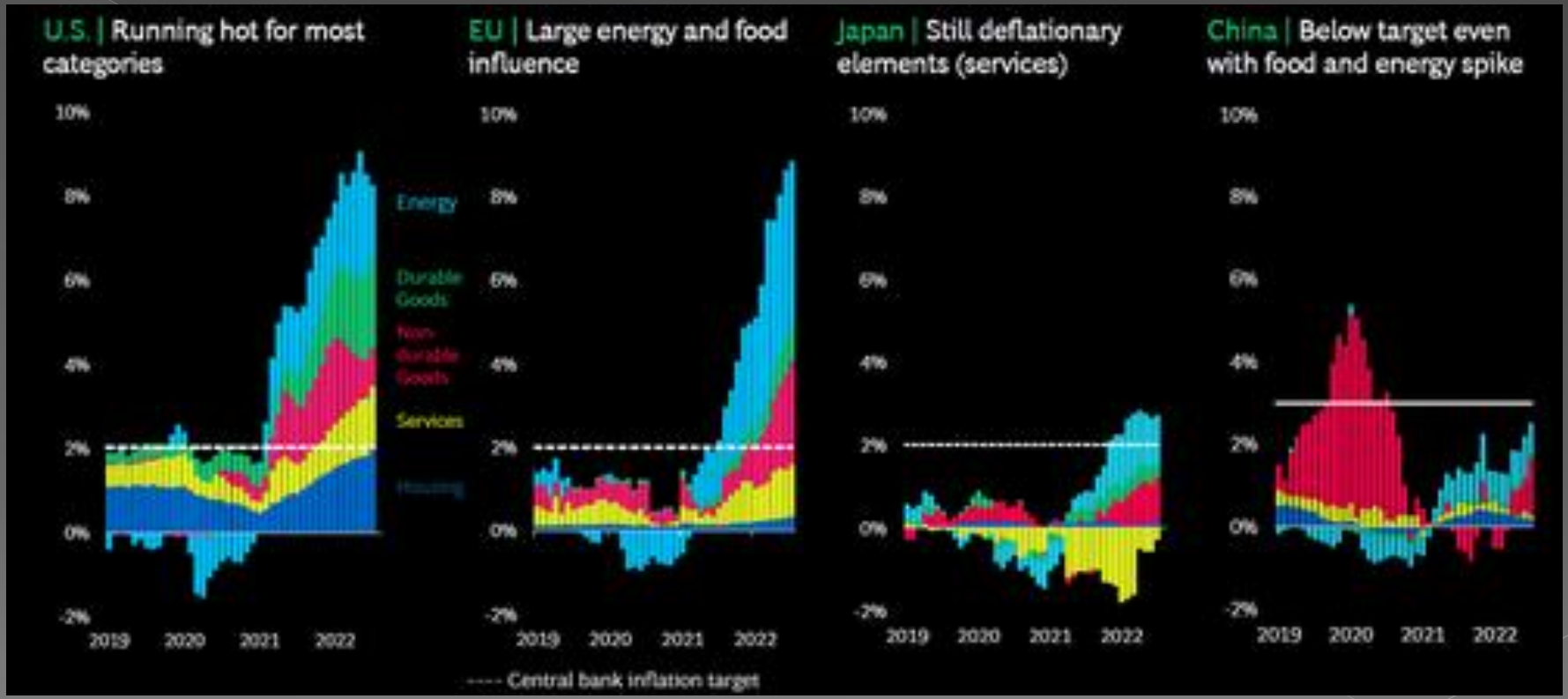
Chart 4: BoJ's policy rate is -0.1%, ECB's is 1.25%, Fed's is 2.25% (soon to be 3%)

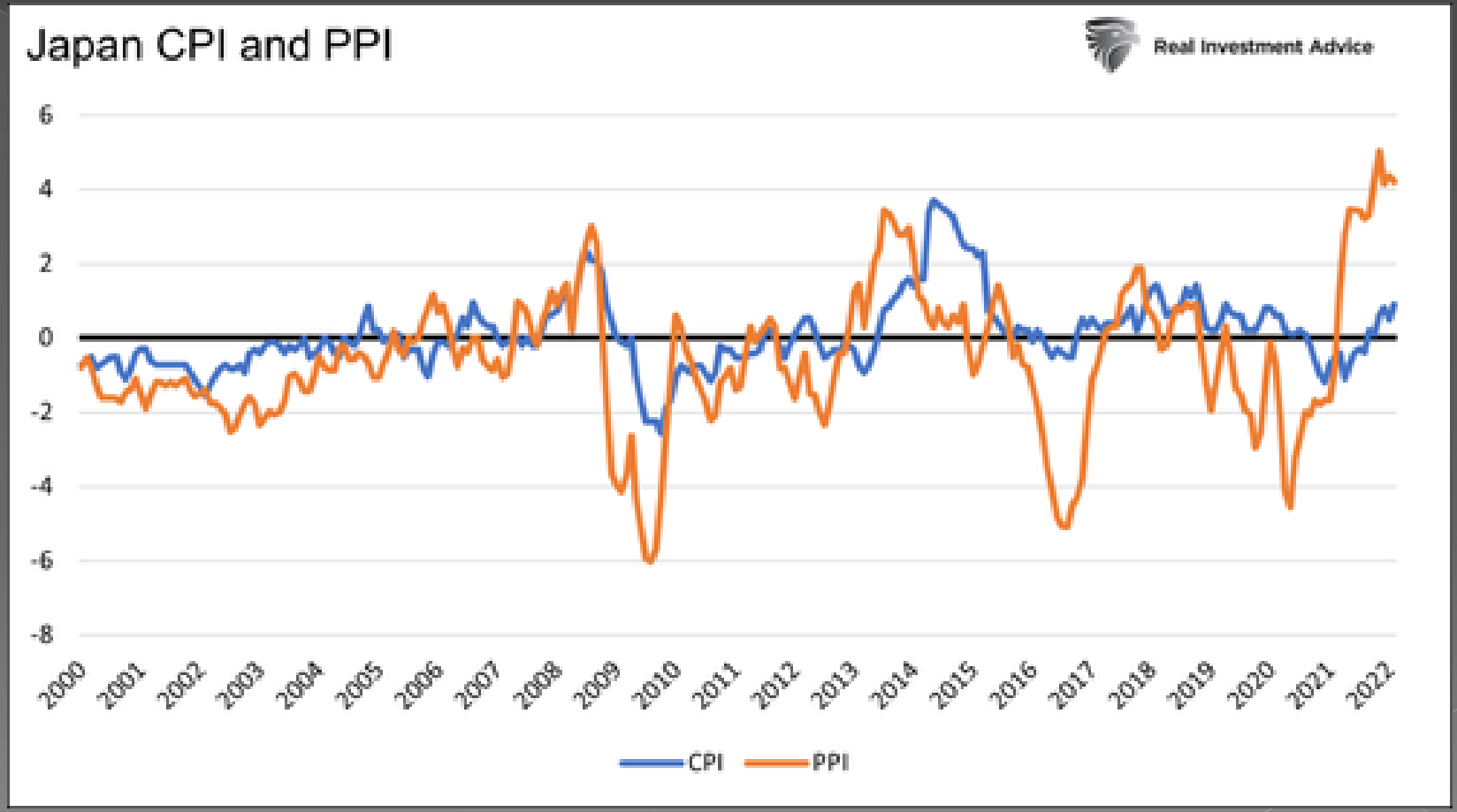
Central bank policy rate (%)




CPI Y/Y (%)
10%
8%
6%
4%
2%
0%
-2%
2000
2002
2004
2006
2008
2010
2012
2014
2016
2018
2020
2022
UK
Sweden
US
Germany
France
China
Japan


Yen vs. U.S./JPY Yields
Real Investment Advice
6.00
5.00
4.00
3.00
2.00
1.00
0.00
140.00
130.00
120.00
110.00
100.00
90.00
80.00
70.00
60.00
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
Yield Difference
Yen/USD


U.S. | Running hot for most categories
EU | Large energy and food influence
Japan | Still deflationary elements (services)
China | Below target even with food and energy spike
10%
8%
6%
4%
2%
0%
-2%
2019
2020
2021
2022
Energy
Durable Goods
Non-durable Goods
Services
Housing
---- Central bank inflation target


Japan CPI and PPI
Real Investment Advice
6
4
2
0
-2
-4
-6
-8
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
CPI
PPI

JAPANESE SUMMARY

• A strong yen and higher rates will entice liquidity to flow back to Japan.
• Yen carry trades will be reversed as their borrowing costs rise alongside an appreciating yen.
• Such is a recipe for a global drain of liquidity and possibly a financial crisis.
• Japanese citizens and pension funds will start to bring their money home to take advantage of higher yields without the currency risk
• The loss of liquidity will be felt worldwide.
• The BOJ is trapped.
• They are conducting unlimited QE to keep rates low and but at the same time, weaken the yen, which promotes inflation. Unlike many other economic pundits, it is not the collapse of the yen that is our chief concern. It is the opposite. The BOJ has avoided inflation for thirty years. The onset of inflation might be too much for them to evade.

September 21st, 2022

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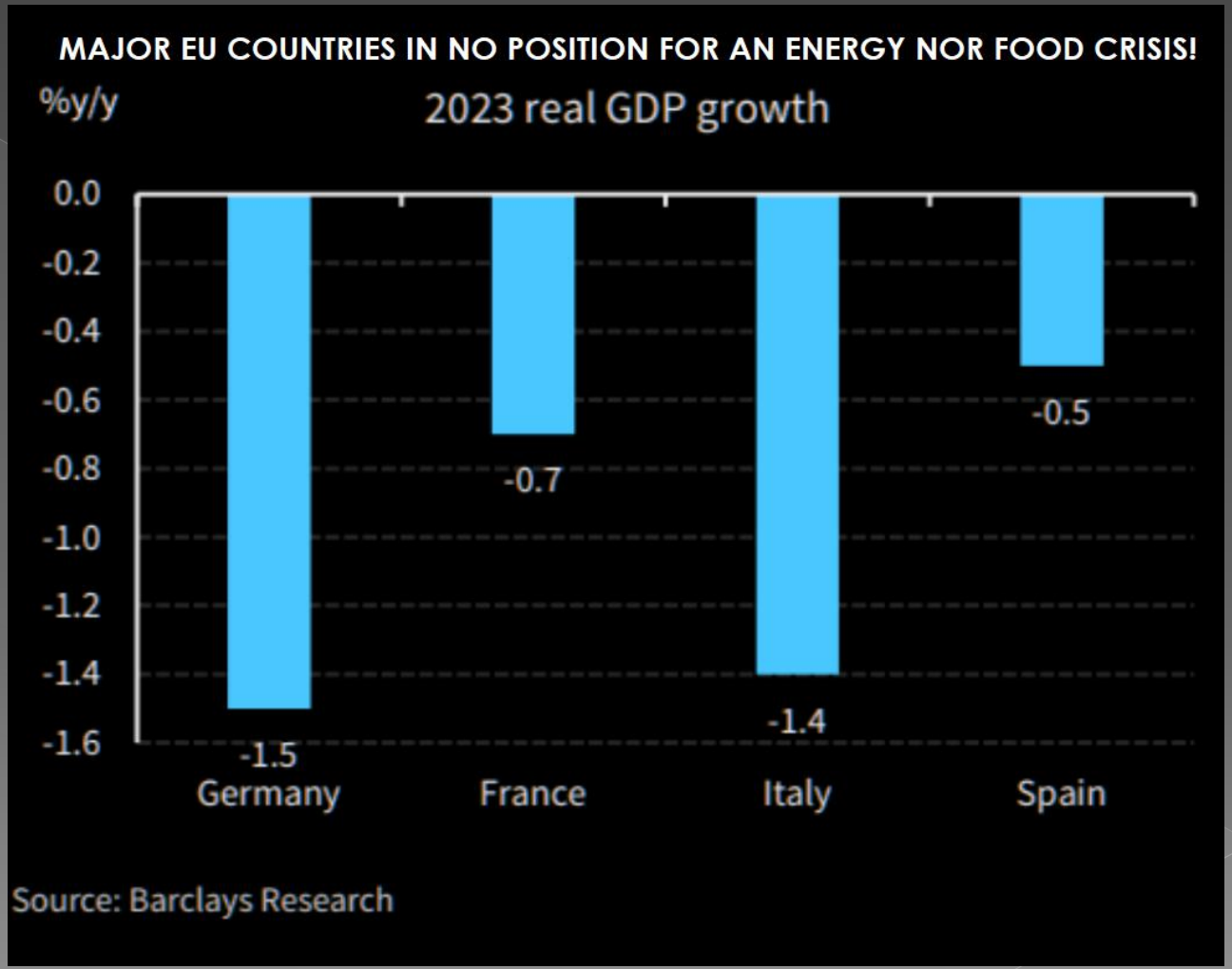
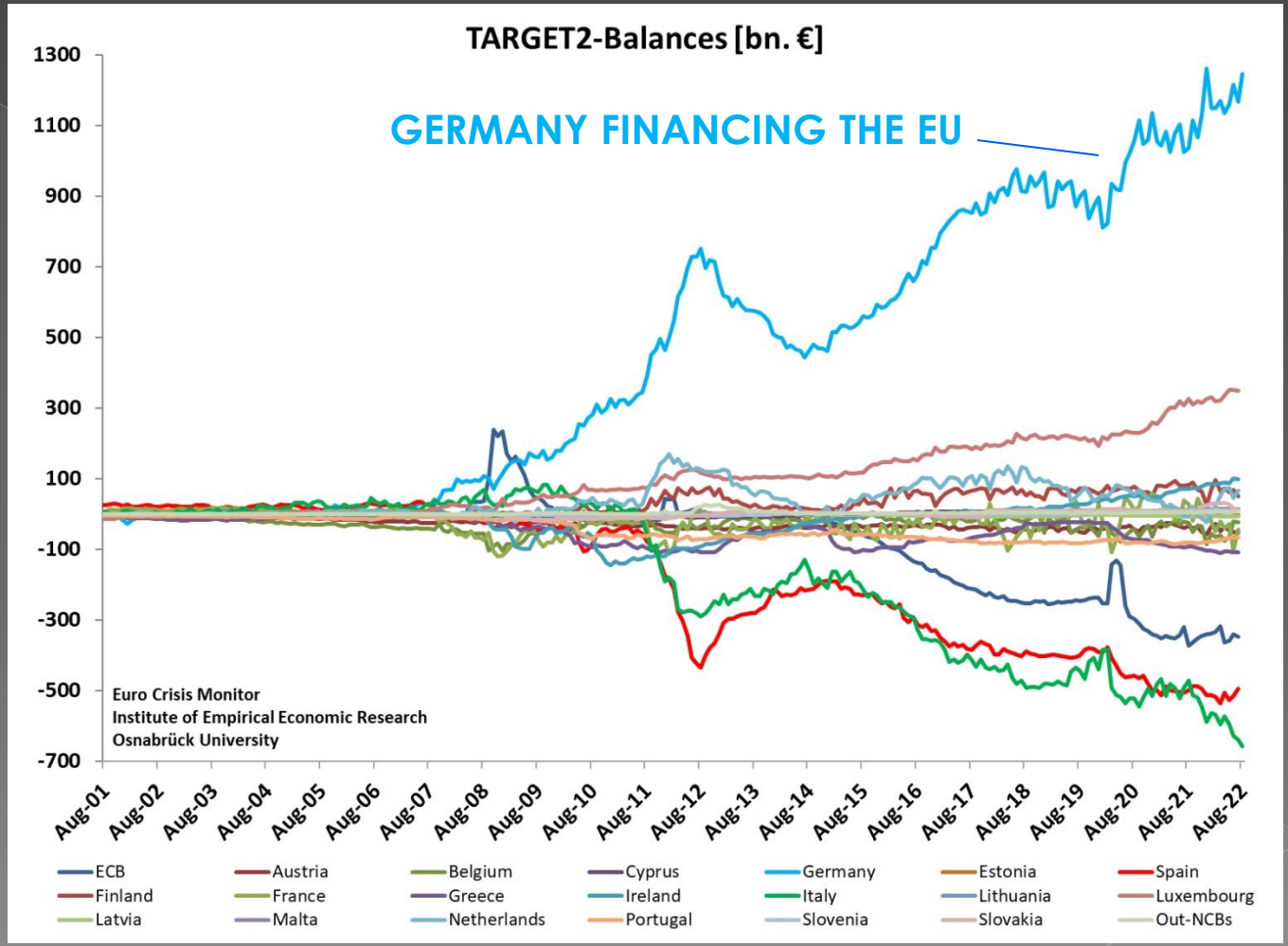
- Global Conflict

MAJOR EU COUNTRIES IN NO POSITION FOR AN ENERGY NOR FOOD CRISIS!




TARGET2-Balances [bn. €]
GERMANY FINANCING THE EU
1300
1100
900
700
500
300
100
-100
-300
-500
-700
Euro Crisis Monitor
Institute of Empirical Economic Research
Osnabrück University
Aug-01
Aug-02
Aug-03
Aug-04
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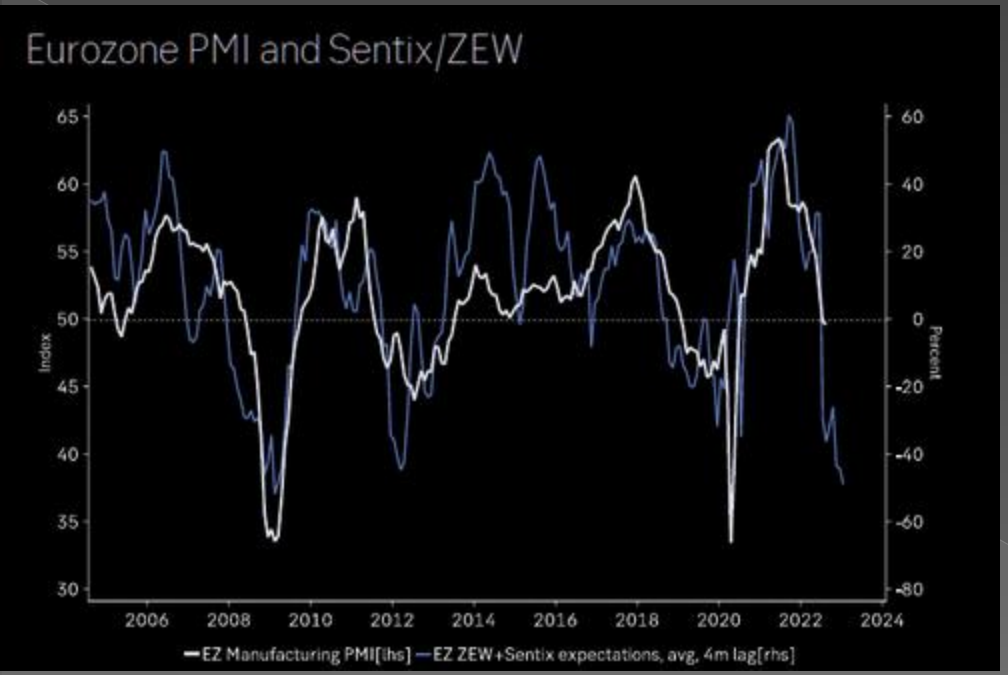
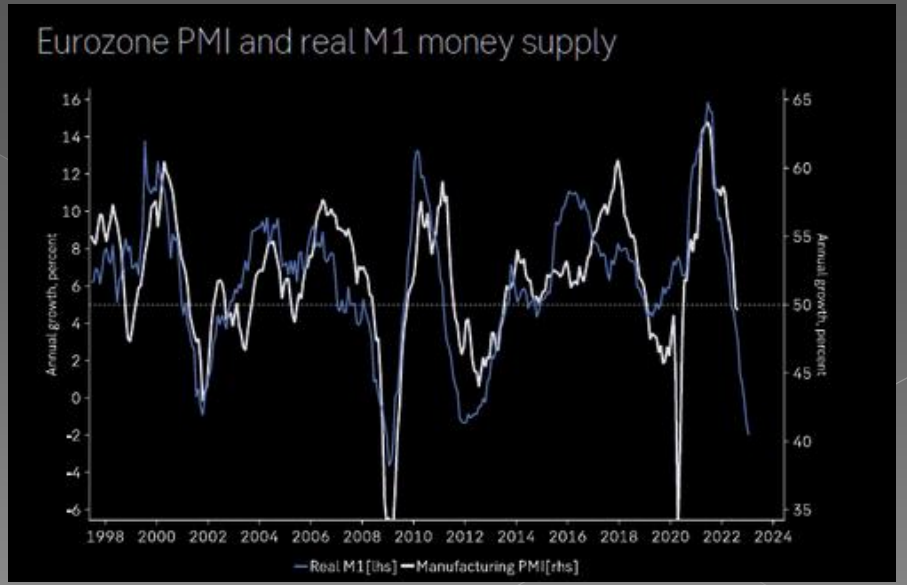
ECB
Austria
Belgium
Cyprus
Germany
Estonia
Spain
Finland
France
Greece
Ireland
Italy
Lithuania
Luxembourg
Latvia
Malta
Netherlands
Portugal
Slovenia
Slovakia
Out-NCBs



Eurozone production growth is about to take a serious hit from energy crisis, rate hikes.



UnderTheLens - JULY 2022

AN EU SOVEREIGN BANKING CRISIS II

The Fed rate hikes are toxic for both the Euro and the Yen. The people of both Europe and Japan face losing a great deal of their wealth if the Euro and Yen continue to fall. In the last newsletter, we outlined the de-stabilizing issues facing Japan.

The EU however is different in the fact that it has never been stable! I have written since the creation of the EU that it was structurally flawed. I felt that they may be able to form a central bank and common monetary policy (ECB), but you cannot have independent unenforceable sovereign Fiscal Policy and no Treasury bond issuance. It is only a matter of time before the proliferate southern sovereign spenders bring down the system. The EU Energy Crisis may now be the final overdue catalyst!

=========

WHAT YOU NEED TO KNOW

- **EURO-ZONE IS A FLAWED CURRENCY & BANKING SYSTEM:** The Euro-Zone's central problem remains a massively flawed currency and banking system.
  - Because many countries and economies share the same currency, when a country fails to keep its budget in-line or falls on hard times, they become a burden to the others forced to carry them. The reality is exacerbated by the fact that roughly 80% of the Euro-Zone's real economy is financed by a banking sector that is loaded with **600 billion euros in non-performing loans.**
  - The EU banks are up to their eyeballs with bad debts and holding worthless paper. Simply put, the whole system is rotten to the core and the Ukraine War and the resulting Energy Crisis may destabilize an already tenuous Euro System!
  - The world's biggest hedge fund also sniffs trouble. Ray Dalio's Bridgewater has doubled bets against European banks and other equities over recent days, disclosing short positions worth $10.5B on 28 enterprises.
- **THE RUSSIAN SQUEEZE:** The Stoxx 600 has fallen by a quarter since the invasion of Ukraine from what was

September 21st, 2022

AGENDA

GLOBAL ECONOMIC PROBLEMS

THE CASSANDRAS

- Political, Corporate & Market Pundits,
- Destabilizing “Flight to Safety”,
- Demographics & Cycles.

CHINA: Can’t Save Us a Fifth Time

- The Chinese Credit Impulse

JAPAN: The Inflation Problem

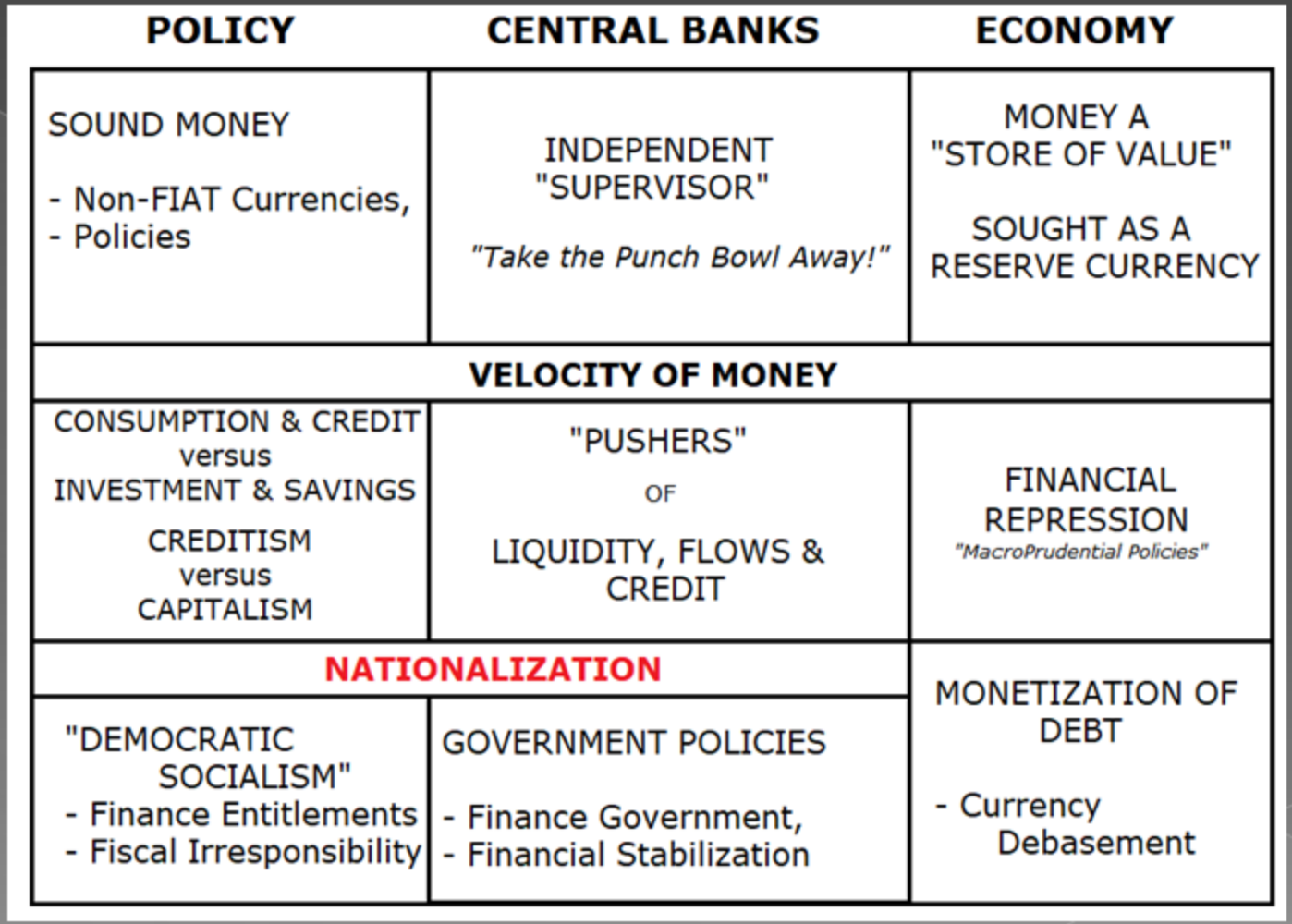
- The Japanese Carry Trade & Global Liquidity

EU: The Failed Experiment

- An Unprecedented Energy Crisis

CONCLUSION

- Global Stagflation
- Global Conflict



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- Policies</td><td>INDEPENDENT
"SUPERVISOR"

"Take the Punch Bowl Away!"</td><td>MONEY A
"STORE OF VALUE"

SOUGHT AS A
RESERVE CURRENCY</td></tr>
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versus
INVESTMENT & SAVINGS

CREDITISM
versus
CAPITALISM</td><td>"PUSHERS"

OF

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- Finance Entitlements
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2020 THESIS

GLOBAL CONFLICT

Emerging Era of Geo-Political, Military & Social Conflict

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ADMINISTRATIONS CHANGE – BUT THE PRINTING NEVER DOES ….

DON'T WORRY, THEY WILL PRINT THE MONEY!

EVERYONE IS NOW IN PLACE & READY!!

NOTE

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