Biiwii Commentary

***e*Research Corporation** is pleased to provide an article, courtesy of Biiwii.com, and written by Heisenberg, with a link provided to its website.

The article, starting on the next page, is entitled: **“Bearishness Comes At You Pretty Fast”**

Biiwii.com was created in mid-2000 solely as a way to help get the message out about deeply-rooted problems about too much debt and leverage within the financial system. The concerns were confirmed and the message proved justified 3 to 4 years later as the system began to purge these distortions, resulting in a climactic washout extending from October, 2008 to March, 2009.

Along the way, a geek-like interest in technical analysis, a long-time interest in human psychology, and various unique macro market ratio indicators were added to the mix, with the result being a financial market newsletter (and dynamic interim updates), Notes From The Rabbit Hole (NFTRH) that combines these attributes to provide a service that is engaged and successful in all market environments by employing risk management first, and opportunity for speculation second.

But It Is What It Is: You can access Biiwii at its website: **www.biiwii.com**.

Notes From The Rabbit Hole: You can access NFTRH at its website: **www.NFTRH.com**

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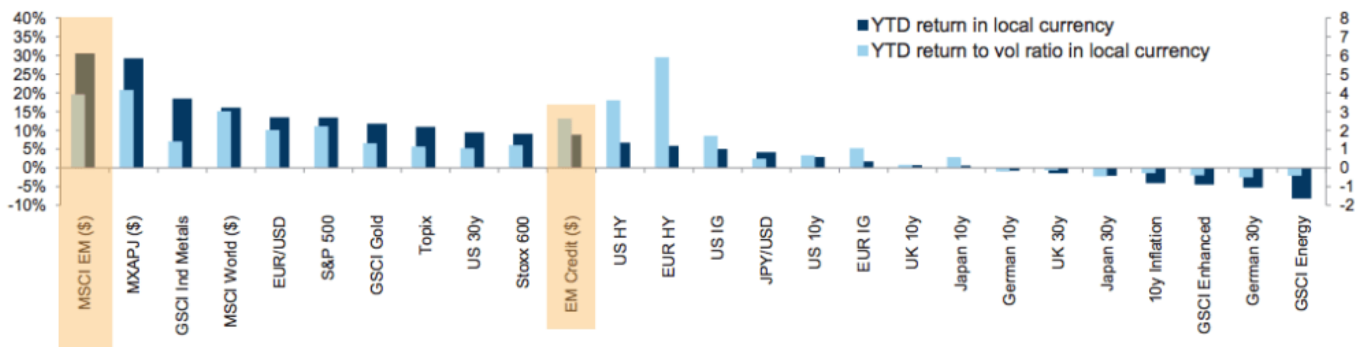
Bearishness Comes At You Pretty Fast

By **Heisenberg**

September 26, 2017

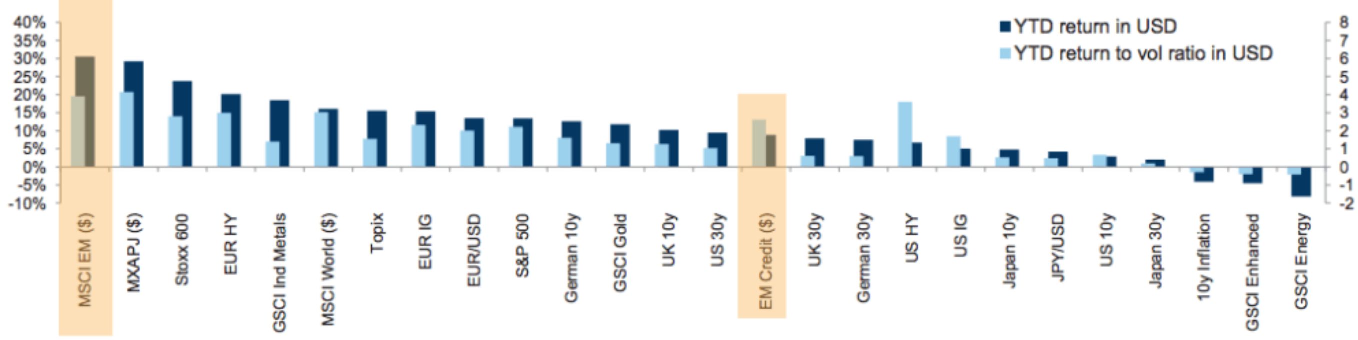
We have been asking for months when traders and investors were going to wake up to the fact that emerging markets are facing a laundry list of concerns that could ultimately undercut the euphoria we have seen YTD.

Exhibit 7: Year-to-date local currency returns and return to vol ratios
Since December 31, 2016



Source: Datastream, iBoxx, Goldman Sachs Global Investment Research

Exhibit 8: Year-to-date USD returns and return to vol ratios
Since December 31, 2016



Source: Datastream, iBoxx, Goldman Sachs Global Investment Research

There is the threat of DM policy normalization. There is the possibility that the dollar has finally found a near-term bottom, and that promises (no matter how vacuous) from the GOP and Trump on tax reform will catalyze a rebound in the greenback even if it proves fleeting. There are idiosyncratic political risks – and not just on the Korean peninsula. And there is the possibility that the rally has simply run out of gas.

Compounding the issue is the possibility that EM bond funds suffer from the same liquidity mismatch as U.S. HY funds. Simply put: when the going gets tough, investors are going to discover there is no liquidity for the underlying (more here).

Of course not everyone is buying all (or any) of that. For example, take BofAML's Ajay Singh Kapur who in a note out earlier this month suggested that investors should simply ignore all of hurdles and "let the bull market do its job." To wit:

> *We have found that an **over-analysis of geo-politics, central bank zig-zags and trying the search for longer-term earnings visibility were a distraction and impeded making money in these bull markets**. We recommend investors to raise exposure if they haven't already, and sell when valuations reach 3X PB, or when they expect a US/Global/Asian recession. **Let the bull market do its job.***

Whatever the case, a confluence of factors may be conspiring to put pressure on the space and as Bloomberg's Mark Cudmore notes on Tuesday, "bearishness can come at you fast" and "complacent longs might soon be questioning what happened." More below…

Via Bloomberg

Emerging Market Bearishness Can Come at You Fast: Emerging-market assets may be suddenly hit on multiple fronts at once.

- One of the core themes of 2017 has been the resilience of EM. And it's precisely because of its solid and steady performance all year that pain can intensify so quickly. Complacent longs might soon be questioning what happened
- Between the Fed's plan to reduce the balance sheet and the dollar's nascent rebound, the environment is suddenly looking more difficult for EM. But similar macro concerns have been brushed off many times this year. The difference this time is that those macro pressures are being combined with a broad array of idiosyncratic negatives
- Asia will suffer due to a trifecta of rising oil prices, weakening tech stocks and a North Korean problem that appears to be intensifying by the week. That will be compounded by extended holidays in several of the region's major markets — China, South Korea and Taiwan. And a fear that the Xi Jinping "put" on economic growth in China may expire after the Communist Party Congress in mid-October
- Eastern Europe will be vulnerable to some retrenchment amid political tensions in both Germany and Spain. Greater integration, and hence convergence trades, will be on the back-burner for a few weeks
- As a major energy importer, Turkey is getting hit by the double-whammy of the geopolitical pressure from the Kurdish independence referendum and the related spike in oil prices
- South Africa, with by far the most liquid financial markets on the continent, is seeing a sharp terms-of-trade deterioration, due to lower metals prices but higher energy costs. That's dangerous for a country with a large current-account deficit, minimal growth, high unemployment and a volatile currency
- Latin America will feel the pinch from weaker metals, but also suffer a deleveraging blow from yet another U.S. domestic policy failure
- From all sides, EM is likely to start feeling the pressure. And as long-time EM traders know well, sometimes the liquidity you saw on the way in just isn't there on the way out

Biiwii/NFTRH on the Web

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Biiwii: But it is what it is

NFTRH: Notes From The Rabbit Hole