

The King Report

M. Ramsey King Securities, Inc.



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“Independent View of the News”

In our Friday missive we warned that expiration could exacerbate the selloff as traders that were short puts got ‘gammaed to death.’ That’s precisely what occurred.

Why The Market Is Crashing Into The Close: JPM Explains

JPM's Marko Kolanovic, head of quant strategies explains...

S&P 500 put option gamma exceeded call option gamma by more than \$50bn prior to the option expiry this morning. This was the highest S&P 500 put gamma imbalance ever...

Despite the fact that S&P 500 options expired this morning, put gamma is still higher than call gamma by ~\$38bn, which is a large imbalance (on account of other S&P 500 option maturities and SPY options expiring at the close). This can lead to further selling pressure into the close today...

<http://www.zerohedge.com/news/2015-08-21/why-market-crashing-close-jpm-explains>

In option (derivative) parlance, delta is the rate of change (1st derivative) versus the underlying security. Gamma is the 2nd derivative, acceleration.

On Friday, the S&P 500 Index fell below 2,000 for first time since February. This unleashed sell signals on a monthly/long-term basis for numerous long-term technical indicators.

The DJIA declined 1000 points in a week for the first time since October 10, 2008.

<http://www.wsj.com/articles/u-s-stock-futures-point-to-more-losses-1440159610>

The DJIA suffer its biggest two-day loss on Thursday & Friday since November 19-20, 2008 (872.46).

On Friday, the DJIA suffered its first 3% decline in almost four years. There had been forty six 3%+ declines in the four years prior to that.

Every over-extended bull market has a ‘hook’ that keeps investors and traders bullish too long. The ‘hook’ this time is the QE opiate.

The only thing that can save US stocks from a bear market is a manic rally over the next few months that would push major stock indices to new all-time highs.

When monthly sell signals appeared in 2011 due to the European crisis, massive central bank intervention quickly generated a robust rally that reversed the long-term sell indicators.

When stocks stagnated in Q2 and Q3 of 2012, Ben Bernanke employed QE 3, just two months before the general election (a rare Fed political ploy) and the Abenomics rally commenced in December. The BoJ announced its QQE scheme on April 4, 2013.

There is nothing on the horizon, or in the current Fed tool box, that has the ability to generate a robust and enduring stock market rally. The political environment will not allow the Fed to do anything that looks like a bailout of The Street or ‘The 1%’ unless stocks tumble much lower from here.

The October 2014 global stock market debacle was due to fear of global recession. The manic rally that appeared was due to St. Louis Fed Bullard's declaration that the Fed might NOT taper QE and Draghi instituting ECB QE.

The sideways action of stocks this year was due to the yin/yang of a deteriorating global economy versus PBoC largesse and hope of more QE or QQE from other central banks.

Last week's collapse of US stocks is the reluctant acceptance of the unpleasant fact that central bank intervention has lost its mojo and all that easy credit is not and cannot get into the real economy.

Speaking of the devil, Bullard surfaced early Friday afternoon to deceitfully proclaim that the Fed does not react to the stock market and he is more optimistic on the economy that the stock market is.

Reasonable confidence: Fed's Jim Bullard looks through oil price drop as labor market heals:
<http://bloom.bg/1JaOpUZ>

This time, it truly is different. US stocks are tumbling and possibly entering a bear market with NZIRP and a \$4.5 trillion Fed balance. Plus, the Fed teems with doves and outright liberals. Only KC Fed President George can be considered a hawk.

If US stocks enter a bear market and the US economy falls into recession, it would be the first time in US history that these events have occurred with fed funds near zero.

The odds of the Fed instituting NIRP are slim and none. Congress would do whatever was necessary to prevent yet another academic experiment in financial repression.

A bear market and recession will subject the Fed to extraordinary criticism, scrutiny and ridicule. The Fed could become a major issue for the 2016 campaign. Good luck getting Congress to bailout some big bank, corporation or Wall Street entity in the coming fifteen months.

Aren't centrally-planned markets grand? How's that command economy, run by a handful of academicians at the Fed working out?

Street denizens are already pleading for the Fed to intervene in the stock market and institute QE 4. Unfortunately for the QE-addicted, QE and other central bank easy credit schemes have lost most of their potency and the current political environment is not QE conducive.

The usual suspects are forecasting or begging the PBoC to employ more easy credit schemes.

HSBA: **PBOC Will Likely Cut Reserve Ratios This Weekend by 50-100 bps**

Bloomberg: **China will cut RRR by 100 bp in coming weeks**

WSJ: **China Poised to Raise Banks' Liquidity to Boost Lending**

The People's Bank of China is preparing to flood the banking system with liquidity to boost lending, according to officials and advisers to the central bank, as its recent currency moves are squeezing yuan funds out of the market and renewing concerns over capital leaving Chinese shores... The move, which could come before the end of this month or early next month, would involve a half-percentage-point reduction in the reserve-requirement ratio...

<http://www.wsj.com/articles/china-poised-to-boost-banks-liquidity-to-counter-weaker-yuan-1440325663>

Now that stocks are in retreat globally, the Street and the fin media are blabbing that it's time to be a 'stock picker.' This typically occurs when the fear of a bear market appears.

Barring a crash, which is unlikely, the level(s) at which the current decline ends will become critical. After the next rally ends, the lows that were posted MUST NOT BE VIOLATED OR ELSE – a critical mass of astute traders and investors will surmise that the bull market is over. Every major correction low since The Crisis of 2008-2009 was NOT breeched. If the coming low is breeched after a rebound rally, the selling should be fierce.

Sunday night in the US, as we write: Oil is trading at \$39.80. SPU's had been down as much as 20.40 but have rallied 10.00 on intervention by various Asian governments and on hope that the PBoC will intervene. The big intervention that bulls desire, the Chinese RRR cut, has not yet appeared. **If the PBoC cuts its RRR or intervenes significantly in some manner and stocks tank after an initial rally, panic selling could occur.** The PBoC has not yet intervened; so the Shanghai Composite is down 7% and SPU's are down 18.70. Apparently traders are expecting US stocks to rally after a down open.

China's Neighbors Step Up Stock Market Support

Taiwan on Sunday slapped a ban on short-selling of borrowed stocks at prices lower than the previous day's close, while South Korea's finance ministry said it will act "pre-emptively" after the nation's largest exchange-traded fund suffered the biggest weekly withdrawal since its inception 15 years ago. China itself said over the weekend it will allow pension funds to invest in stocks for the first time, while penalizing major shareholders at publicly traded companies for violating rules that limit stake sales...
<http://www.bloomberg.com/news/articles/2015-08-23/china-now-has-company-in-supporting-stocks-as-neighbors-follow>

Today – We have regularly commented that ugly Thursday-Friday sequences lead to ugly Mondays. The most infamous of this type of sequences was the 1987 sequence of a big decline on Wednesday, a worse decline on Thursday, a large decline on Friday, which was October expiry, and a crash on Monday.

The best chance for a tradeable rally would be if stocks get washed out today so a Turnaround Tuesday could develop. This might commence with a late rally today or a down opening on Tuesday.

Globally, investors and traders are on intervention watch, even though the evidence is mounting that central bank intervention has lost its mojo and is turning counterproductive. Any rally on intervention is likely to be transitory.

Wall Street pundits remain staunchly bullish.

Lawrence McDonald @Convertbond: **S&P 500 Year End Targets** [Friday close 1970.89]

Stifel 2350

Birinyi 2300

UBS 2225

Canaccord 2340

MS 2275

BofA 2200

RBC 2325

JPM 2250

Goldman 2100

Investors haven't been this terrified since 2009

Markets caught in such "selling squalls" rarely bottom on a Friday, he says, "giving investors the weekend to brood about their losses." That ensures they'll show up the following Monday in "sell mode," Saut said, which often leads to "Turning Tuesday."

<http://www.marketwatch.com/story/investors-havent-been-this-terrified-since-2009-2015-08-21>

Bespoke @bespokeinvest: *S&P 500 closed 4.4 standard deviations below its 50-DMA on Friday. Last time closed more oversold than that was on 10/19/*

Foreign Car Factories Curb Output in China [But the PBoC is going to flood the system!!!]

Makers including GM and VW run Chinese plants at less than full capacity as sales slow

<http://www.wsj.com/articles/foreign-car-factories-curb-output-in-china-1440358381>

Angry investors capture head of China metals exchange

The head of a Chinese exchange that trades minor metals was captured by angry investors in a dawn raid and turned over to Shanghai police, as the investors attempted to force the authorities to investigate why their funds have been frozen. Investors have been protesting for weeks after the Fanya Metals Exchange in July ceased making payments on financial investment products...

<http://www.ft.com/intl/cms/s/0/02a129cc-4995-11e5-9b5d-89a026fda5c9.html#axzz3jgNCa0KK>

U.S. banks moved billions of dollars in trades beyond Washington's reach

Part 2: The story of how Wall Street's giants got around derivatives rules imposed by the CFTC after the financial crisis. The fix: tweaking contracts and shifting deals offshore.

In 2009, President Barack Obama tapped Gary Gensler, then 51 years old, to chair the CFTC. Liberals grumbled about Gensler's résumé. The son of a cigarette and pinball-machine salesman in working class Baltimore, Gensler, at 30, had become the youngest banker ever to make partner at Goldman Sachs... he oversaw the bank's derivatives trading in Asia. Later, as an undersecretary of the Treasury, Gensler helped push through the 2000 law that had banned regulation of derivatives markets...

Regulatory arbitrage – had a history of landing the economy in trouble. AIG, a Connecticut-based insurance giant, buckled in 2008 under trades made by its office in London. U.S. taxpayers footed the bill with a \$182 billion bailout. Gensler often told people how, at the Treasury, he was stuck with the task of briefing then-Treasury Secretary Robert Rubin about Long-Term Capital Management in 1998. The Connecticut hedge fund collapsed under \$1.2 trillion in swaps booked to a post office box in the Cayman Islands... <http://www.reuters.com/investigates/special-report/usa-swaps/>

Japan's finance minister says China's currency moves a concern for Tokyo

Japanese Finance Minister Taro Aso said Friday that recent moves by China to allow its currency to depreciate are a concern and could pose problems for Tokyo...

"Chinese factors are a big part of this, without a doubt," Aso said at a regular news briefing. A further devaluation of the Chinese yuan could put Japan in a "tough spot," ...

<http://www.usnews.com/news/business/articles/2015/08/21/japans-finance-minister-warns-china-on-currency-moves?>

Trump says tax code is letting hedge funds 'get away with murder'

In a telephone interview on CBS's "Face the Nation," Trump vowed to reform the tax laws if elected and said the current system was harming middle class Americans who currently faced higher tax rates than traders on Wall Street... "They are energetic. They are very smart. But a lot of them - they are paper-pushers. They make a fortune. They pay no tax. It's ridiculous, ok?"

Trump's comments were referring to the so-called "carried interest loophole" - a provision in the tax code which allows private equity and hedge fund managers pay taxes at the capital gains rate instead of the ordinary income rate...

<http://www.reuters.com/article/2015/08/23/us-election-trump-hedgefunds-idUSKCN0QS0P120150823>

Macedonia-Greece Border Tension Ratchets Up as Migrants Flow In

Police again use force against mostly Syrians on their way to northern Europe

142,000 seaborne migrants have arrived in Greece since June 1, according to the International Organization for Migration... <http://www.wsj.com/articles/macedonia-greece-border-tension-ratchets-up-as-migrants-flow-in-1440266542>

<http://www.wsj.com/articles/macedonia-greece-border-tension-ratchets-up-as-migrants-flow-in-1440266542>

IMMIGRATION OVERTAKES THE ECONOMY AS BIGGEST WORRY IN UK...

<http://drudge.tw/1NASwNm>

Recession will make immigration an even bigger issue than it is now in developed countries.

A bear market and recession hurt establishment candidates. It will help Trump, who is increasingly being viewed as an avenging angel against the establishment and status quo.

Trump widens lead over U.S. Republican presidential field: Reuters poll

Nearly 32 percent of Republicans surveyed online said they backed Trump, up from 24 percent a week earlier, the opinion poll found. Trump had nearly double the support of his closest competitor, former Florida Governor Jeb Bush, who got 16 percent... Ben Carson was third at 8 percent...

<http://news.yahoo.com/trump-widens-lead-over-u-republican-presidential-field-224439794.html#>

CNN: **Biden meets with Warren in Washington** [Months ago we stated: no more Bushes or Clintons] ... *another sign he is seriously deciding whether to jump into the Democratic presidential race... Biden is the leading figure Democrats believe they could turn to if they needed to find an alternative to Clinton...*

<http://www.cnn.com/2015/08/22/politics/joe-biden-washington-meetings/index.html>