THE National Investor

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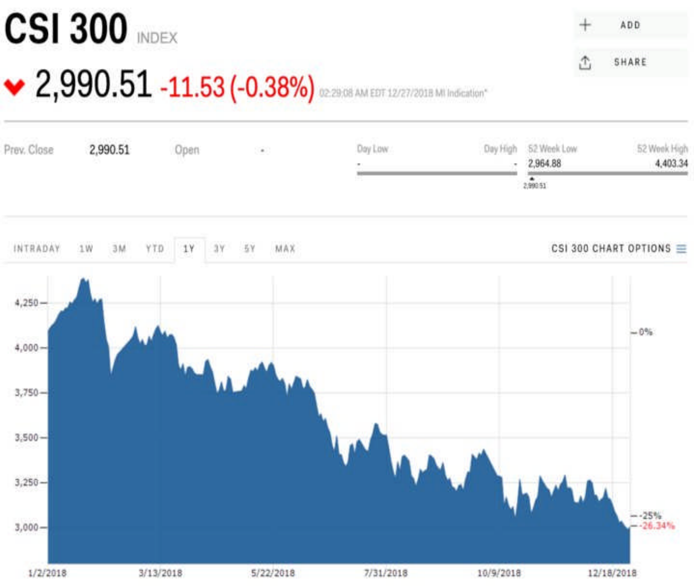
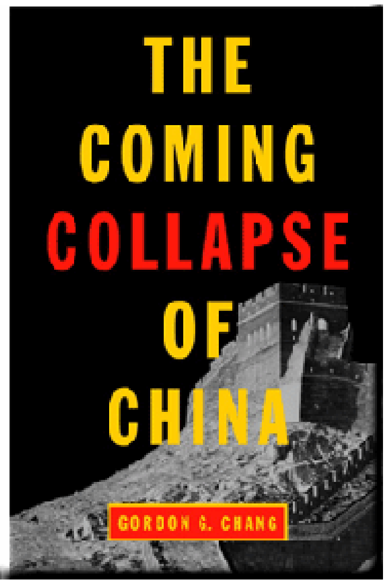
MARKET COMMENTS

CHINA ISSUES WILL DETERMINE THE MARKET'S--AND GLOBAL ECONOMY'S--FATE IN 2019



On several occasions during 2018 I pointed out that the most important stock chart to keep one's eye on was China's. In the end, Chinese stocks were the stinkers of the year, dropping by more than a quarter.

And as we commence the New Year, it's becoming more apparent--*and with increasing speed*--that the world's second largest economy is in BIG trouble. Chinese stocks rang in 2019 with a further decline; and were accompanied by a near-3% drop in Hong Kong. This came as yet further stats out of mainland China show a *contraction* in economic activity.



None of this comes as a surprise to author--and China "hawk" -- Gordon Chang. He has long ridiculed the stage-managed "growth" numbers put out by the government which are now down to a mere 6.5% annualized growth rate. In some comments (https://finance.yahoo.com/video/chinese-leaders-changed-views-president-200233704.html) during a recent interview with Charles Payne, Chang argues that the real growth number (were China truthful) is a small fraction of that.

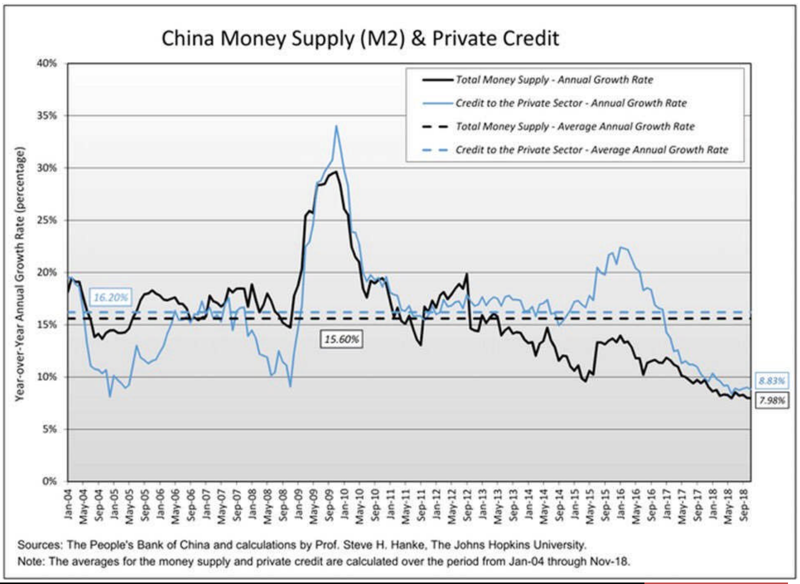
As I am finishing up this issue on the first business day of the New Year, we had an exclamation point appended to what Chang, Yours truly (in the last several weeks especially) and others have been warning, regarding just how much China's economy is bogged down. **And that came in Apple's after-hours bomb shell today (Wednesday, the 2nd.)**

What was the world's largest company by market cap at well over $1 trillion at the peak (now a more modest $690 billion) issued **a dire revenue warning for the first quarter**. Placing most of the blame on emerging market weakness generally *and China's specifically*, Apple said its revenues will be more on the order of $84 billion in the quarter, down from a previous estimate of almost $92 billion.

Immediately, the tech stock universe more broadly buckled, with early futures indications for Thursday trade showing about a 2% or so decline for the Nasdaq overall on tap. But beyond that, other China-sensitive names gave back some regained ground of the belated Santa Claus rally as well: among them Boeing and Caterpillar.

Even before Apple gave more color yet to the *true* state of affairs in China, some analysts were warning of more woes to come. In one of its research notes, Nomura Securities economists stated, "Looking ahead, we see more headwinds to growth from weakening domestic demand, the ongoing credit downcycle, a cooling property sector and lingering China-U.S. trade tensions."

Last issue, I directed you to https://www.zerohedge.com/news/2018-12-14/why-collapsing-chinese-credit-impulse-all-matters; a *Zero Hedge* write up that is the foundational information you must understand to likewise understand **the predicament China--and truly, the world--are in.** Having led the world in a credit-creation spree over the last decade or so, Chinese consumers just can't keep up. Nor can many a debtor, especially as the central authorities have made at least some attempts to rein in credit growth (now as slow as it has been in 20 years) and still allow some of those "controlled implosions."



But especially as the government has let various shadow banks, peer-to-peer lending devices and some other non-core financial and private banking entities to die, **that has only galvanized the growing fear and new found conservatism of Chinese consumers and investors.** If it's not large investors who have pulled enormous sums out of the country and its markets in the recent past, it's frightened and now-wounded consumers who are pulling in their horns; the latter, just at the time they are needed more than ever to shoulder some of the burden of keeping the overall economy from imploding.

Especially if there is not soon a *major* breakthrough in trade talks, **that will especially leave China no alternative but to devalue the renminbi.** Indeed--on the back of the sub-50 manufacturing PMI numbers and, now, Apple pulling more of the veil away--it's likely we aren't far from new stimulus measures. After all--and as I've been explaining, these factors were already becoming bigger ones WITHOUT the trade war, even if they have been made worse--DEFLATION is a clear and present danger (https://www.theepochtimes.com/deflation-risk-rises-as-chinas-economy-keeps-faltering_2748628.html)

Since its stunning mid-year reversal last June, "Dr. Copper" has been consistently warning of this. So, too, have most other industrial commodities. There's no sugar-coating this: YES, on long-term fundamentals, copper at $2.60/pound or so looks for all the world to be very cheap. *But it will get a whole lot cheaper for a while if China has some kind of an accident; or if the hawks advising President Trump push too hard.*

Crude oil's recent decline also renders energy and energy stocks apparent bargains. *Yet here, too, we need to remain on our guard.* Oil's decline from the mid-$70's to the mid-$40's was out of all proportion to fundamentals. *Yet if China implodes, we'll see those $20's of early 2016 again.*

One recent interesting piece, at https://uk.reuters.com/article/uk-metals-copper-ahome/commentary-hedge-funds-give-up-on-indecisive-doctor-copper-idUKKBN1OH1KQ, described just how much usually-robust *and liquid* copper trading platforms have grown quiet. On both the COMEX and Shanghai's own main futures exchange, **open interest in copper is at its lowest in two years**. This is one of the more acute signs of traders, especially China and emerging Asia focused ones, having pulled in their horns.

Another one--and showing how much thinner and potentially volatile subdued and worried markets have become--emerged tonight in the aftermath of the Apple news and more acute fears over China's economy: **a SOARING Japanese yen**. I have likewise urged keeping a close eye on it as a reliable measure of risk sentiment (in this case, decidedly risk OFF.) Having just broke the $1.10 level, the yen raced to $1.05 before pulling back; *a GARGANTUAN move for a currency that could be giving us a taste, too, of what a rush into the U.S. dollar could look like if policy makers aren't careful*.

Whether this "flash crash" of a move down in other currencies against the yen spreads elsewhere we don't know yet. But I have to believe the Larry Kudlows and other market cheerleaders advising the president aren't going to get much sleep tonight as they ponder Apple...the yen...plunging sovereign debt yields...and all the other signs that--even if Jerome Powell doesn't do it--THEY may be the ones to pull that one stick too many out of the current Jenga game, and cause the faulty tower to fall down.

I sure hope that the many commentators suggesting that these growing pressures are going to *force* some positive action (I repeated a potential scenario, too, I see plausible on this afternoon's podcast, at http://www.kereport.com/2019/01/02/big-picture-view-markets-economies-stories-watch-develop/) between the U.S. and China are right. *There may not be too much time left to play with here*. . .

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