JUST 2 THINGS REALLY MATTER THIS WEEK-BOTH FROM WASHINGTON

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Coming Week Market Movers- A Weekly Preview And Strategy Guide For Traders & Investors In Major Global Markets

For the coming week, here are the likely top market movers. Only the first 2 are likely to matter. Both of these originate from one overriding political goal.

1. Ongoing Reaction To QE 3, OMT: Neutral to Positive

As in the weeks following QE2, we may continue to see consolidating markets as bearish selling "buy the rumor sell the news" profit taking balances bullish buying ahead of the anticipated next leg higher as at some of all the new cash seeking to find a home reaches risk asset markets like stocks.

2. The Obama Pre-Election Freeze On The EU Crisis: Super Bullish–The Top Market Mover For The Coming Week (And Beyond)

Sometimes the biggest market mover is the one that is hard to see because it acts by *preventing* movement, by maintaining calm when all hell should otherwise be breaking loose.

Arguably the single most important report last week was Friday's Reuters article about how Washington is pressuring the Troika (EU/IMF/ECB) to delay its report on Greece (which could lead to another Greek default threat and bout of EU crisis) to defer any bad news until after the US elections.

Here are a few key quotes:

"The Obama administration doesn't want anything on a macroeconomic scale that is going to rock the global economy before November 6," a senior EU official told Reuters, adding that previous troika reports had also slipped.

…Several sources in Germany described those conversations with their U.S. counterparts and said the message had been that the Americans didn't want surprises before the election.

…"It's likely the troika report will be pushed back beyond the U.S. election date," said a Berlin official who spoke on condition of anonymity. Asked if that was a special request from Washington, he replied: "They don't want any surprises."

….A negative troika report could also revive pressure to force Greece out of the single currency area with potentially devastating knock-on consequences for other European countries and the global economy.

European leaders have the same interests as the U.S. president in not destabilizing markets — their own economies have also been badly affected by the fallout from Greece, where the sovereign debt crisis began in January 2010.

But one source said EU leaders' motives went beyond macroeconomic stability. They also had political reasons to avoid rocking the boat before the U.S. election.

"As far as European leaders are concerned, they don't want Romney, so they're probably willing to do anything to help Obama's chances," said the source, an EU official involved in finding solutions to the debt crisis. (emphasis mine)

Am I the only one shocked by the above story, from a highly respected mainstream news organization, Reuters?

Forget the disturbing ramifications for how both global economics and politics work. The big idea here is that if US and EU policy makers are able to get their way (likely), then markets can almost ignore the drama in the EU until mid-November. It has been decreed: bad things shall not happen, lest the true state of things hinder Obama's re-election.

Greece can do what it wants,

If Washington and EU are willing to put a freeze on the Greek situation, need we doubt that all the noise we'll hear about the bigger threats, Spain and Italy, will indeed be just noise, until after the US elections? They may be deteriorating, but all is to be kept looking good for now. Bond sales will be successful (Spain is selling ~27 bln EUR in October); banks will stay solvent regardless of the ongoing run on Spanish and Italian banks.

That's astounding, when we consider what's going on just in Spain, never mind the rest of the GIIPS. Here are just a few examples, courtesy of Graham Summers ***Private Wealth Advisory Newsletter*** of September 14:

- Spain's banks experience a 70 bln EUR run in August. Their entire market cap is ~114 bln, meaning they must raise at least 70 bln in the coming months just to replace that loss. Of course, Spanish depositors could easily maintain or increase the pace of withdrawals. If they do, then double the amount of capital Spanish banks must get from the ECB.

- Spain has set aside ~ 18 bln to bailout its regional governments. Of that, 10.5 bln has already been requested just this year, from Valencia, Murcia, Catalonia, and Andalusia.

Despite these obvious and disturbing ramifications, I saw no follow up articles or other signs that this story was a really, really big deal.

Who here is crazy? Me or the financial media?

If in fact the EU has been taken out of play until after the elections, and QE 3 is firing up, there isn't much that's likely to send markets much lower in the near future, especially as long as the already not great fundamentals don't materially worsen.

Indeed, if markets behave as they did after QE 2's announcement, the current consolidation is more likely to be a prelude to another leg higher.

Yes, there are plenty of threats out there besides the EU. There's the ongoing China hard landing, the US Fiscal Cliff, some geopolitical tensions that could get ugly (China vs. Japan, Iran vs. Israel/US) but neither represent likely threats in the coming weeks.

3. Top Calendar Events

It's a typical end of month light event risk calendar. Below we list the top events, though we suspect they'll be influential only in the absence of other news or if they support the ongoing trend.

Monday: German Ifo survey

Tuesday: US CB consumer confidence survey, ECB Pres. Draghi speaks

Wednesday: US new home sales

Thursday: Italy 10 year bond auction-as noted above we doubt this will be allowed to be anything but rosy, unless ECB wants to send Italy/Spain a message that they must cooperate &

accept bailout with its conditions and audits. Given the amount these nations owe, however, I'm not at all sure who really has leverage over whom. Greece thus far has able to play its default threat to a degree. US pending home sales.

Friday: US durable goods reports

Conclusions

1. Political Considerations Likely To Keep Markets Steady-To-Higher

2. For the coming weeks, our bias is neutral to higher. We believe the Reuters report. Indeed, it confirms our suspicions that the White House and is allies will manipulate markets as much as they can to keep things calm or upbeat until after the elections. Indeed, that theory goes far in explaining why the Fed announced QE 3 2 weeks ago. The US economy had not worsened markedly. We suspect the real drive behind the timing was a combination of:

- Desire to help temporarily stabilize the EU, the main threat to global markets, and so indirectly help the Obama campaign

- Desire to help the Obama campaign directly while it still can (and save Ben Bernanke's job, which he'll lose if Romney wins).

It's an Obama re-election market now, with both US and EU policymakers doing all they can to at least keep markets steady, if not moving higher. This is the best explanation for why the Fed brought on QE 3 now.

The only other is that the EU is in even worse shape than publicly admitted, and QE 3 is a means for a backdoor bailout (hat tip again to Graham Summers of Private Wealth Advisory and Phoenix Capital).

In sum, we follow the charts, and the principle of not fighting the Fed, both of which continue to suggest an uptrend and bias to risk assets and anything that's a likely hedge for the EUR and USD.

IF YOU'RE HEAVILY EXPOSED TO THE USD, EUR, JPY, OR GBP

For the near and longer term, those whose assets are mostly denominated in these currencies (or in the JPY or GBP) should be working on diversifying into assets linked to or denominated in currencies that are not under severe devaluation threat from historical levels of money printing.

How do you do that? See here for the most update, complete collection of methods suitable for mainstream investors or traders who seek prudent currency hedging without the risks and complications of traditional spot forex trading.

Just like you diversify by asset type and sector, you should also be diversified by currency exposure. This need not be hard or complex, but it will take you some time to read or skim the book, and then to start acting on the methods that appear right for your needs.

If you're not yet convinced that you're likely to be the victim of a devalued currency, read here and here, and be forewarned.

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