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The following is part of *Pivotal Events* that was published for our subscribers October 6, 2016.

"Sobriety Is At The Door"

Signs of The Times

"Hotel demand is slowing as supply increases."

– Business Insider, September 16.

"Marc Faber: 'Extreme Money Printing' Will Inflate Dow to 100,000"

– News Max, September 16.

"China's wealthy are flocking to investment products that buy bank capital securities and soup up returns by using borrowed funds."

– Bloomberg, September 27.

"'Massive' Shortage of Appraisers Causing Home Sales Delays"

– CNBC, September 27.

"Consumer Confidence Rose in September to the Highest Level Since August 2007"

– Bloomberg, September 27.

"Germany's Commerzbank will cut more than a fifth of its workforce and suspend its dividend as it tackles the challenge of low interest rates, weak profits and the shift to online banking."

– Reuters, September 29.

"The rich are being maddenly frugal."

– Bloomberg, September 29.

Perspective

Some of the stand-out headlines are showing interesting contrasts.

China's wealthy are still leveraging up in financially-engineered confections. Connecticut's wealthy are becoming "maddenly frugal", in no longer buying high-end houses and cars. The headline in between was about Consumer Confidence (Conference Board) reaching the highest reading since August 2007. Numbers for the report were cut on September 15th. The NYSE Comp set its high on September 6th.

In looking at the credit markets, sobriety is knocking at the door and policymakers may not be able to keep the party going.

Credit Markets

As outlined in Tuesday's "Special", spread-narrowing has reached the RSI target of 25. From more than 20% as the panic ended in January the CCC spread has come into 11.55%, which is clocking an outstanding rush. The momentum target has been slightly exceeded.

On pattern, the Sequential (13) Buy has been registered. In this case the "Buy" means the turn to widening.

Both technical measures suggest there is enough excess to set up the reversal. This could take a week or so.

Some 14 months of flattening ran the Treasury curve from 1.79 to .71 in late August. The initial move to .97 was turned back by the 200-Day ma. The test seems to have been accomplished at .81. Now at .870, rising through resistance at .97 would set the new trend.

As noted in August, initial steepening would help bank stocks, but trend extension will not.

Quite likely, the rest of the credit world will turn with the US market.

Similar timing on the reversal worked for us in early 2000 and in May 2007.

We have been watching the Municipals (MUB) since March when the action last became overbought. Reversal needed to take out the 20-Week ema. It didn't then, but the next rally was outstanding. Outstanding enough to accomplish the highest Weekly RSI in four years.

Primed for reversal, all that was needed was to take out the 20-Week ema. It has and the line has been tested. Yesterday's drop took out the 200-Day ma, which is significant.

The most corrupt municipalities and counties have endowed their union employees lush pension benefits. Pensions have been greater than the wages of working taxpayers. The "City of Bell Scandal" is the example.

Something similar in price action holds for the long bond.

Our study in early July concluded that the big zoom was "Ending Action". Meaning the end of the great bull market that began in 1981 when the yield soared to 15 percent. Technicals were opposite to that momentous reversal.

The high for the TLT was 143.62 in July and the initial decline was to 133 in the middle of September, which was just under the 20-Week ema. The bounce made it to 139 last week, which was above the ema. At 134 now, it is well below the line and taking out 133 would be a significant break. It's possible.

Over in Emerging Bonds (EMB), the action has been very good. The lust for yield has overwhelmed prudence, which has accomplished a huge swing in the Weekly REI. Momentum was high for some weeks.

The price soared from 102 in the January panic to 118.14 at the first of September. The initial decline was to the 20-Week ema at 115. The bounce made it to 118. Now at 116.25, taking out the ema and support at 115 would also be a significant break.

The action seems to be a few weeks behind that of Munis and Treasuries. [1]

Governments have found financial manias very profitable in tax collections and the ability to fund state ambition as well as the appearance of prosperity. They have never wittingly done anything to deliberately end them. That is from the first one, the South Sea Bubble of 1720, to the most recent classic bubble that completed in 2007.

This has been the only great bond bubble in history and it will be followed by an irresistible and massive contraction.

This could be discovered when all classes of bonds break down.

Recording conditions in the money market, the distinctive increase in the Libor rate corrected briefly and broke out yesterday. And Wall Streeters still continue to speculate about Fed policy, which usually follows important changes in market rates of interest.

Link to October 7, 2016 Bob Hoye interview on TalkDigitalNetwork.com:

http://www.howestreet.com/2016/10/07/canadian-mortgage-stress-test-not-a-bad-idea/

[1] Almost wrote "Trashuries", which reminds of Ogden Nash's *The Golden Trashery of Ogden Nashery*. This was a spoof on *A Little Treasury of British Poetry*. Well, you had to have been there. Nash is known as the author of ***"Candy is dandy, but liquor is quicker"***.

Municipals: Game Over!

- The attempt to take out the 20-Week ema in March did not work.
- The next rally into late June accomplished the highest Weekly RSI in four years.
- By stages the decline could amount to some 15 points.
- Municipalities with no fiscal discipline could suffer a serious decline.

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