



Has the U.S. Reached a Decision Point on NK?

A worrisome report, to put it mildly. Two high-strung, insecure, dictators at play. When / if Tillerson resigns, then we will know we have a serious problem in U.S. leadership.

Comments / clarity welcome. Enjoy the summer!

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MARKET INTELLIGENCE REPORT

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QUOTE OF THE DAY

“Happiness is a by-product. You cannot pursue it by itself.”

Sam Levenson

➤ HAS THE U.S. REACHED A DECISION POINT ON NK?

External data is beginning to appear which suggest the U.S. reached the point of no return on North Korea. Last week, the State Department issued a notice banning U.S. tourists from visiting NK, starting in thirty days. Due to safety and security concerns, Secretary of State Tillerson has authorized a Geopolitical Travel Restriction. At the moment, there three known American prisoners in North Korea.

Meanwhile, the State of Hawaii has been asked by the Hawaii Public Safety Commission to re-equip Cold War era fallout shelters. They were last updated during the 1980s. (1) Their concern is a North Korean missile attack.

North Korea has warned again that U.S. troops should leave South Korea. This is not a new warning. In recent years, North Korea has periodically stated U.S. forces should leave. This effort is designed to exert pressure on both South Korea and the U.S. in attempt to split the two allies. Over those years, it went nowhere.

The expansion of U.S. naval patrols in the South China Sea is new and intended to pressure China and North Korea. President Trump’s authorization of additional freedom of navigation by the U.S. Navy comes after a rare one-hour video conference between U.S. Chief of Naval Operations, Admiral John Richardson, and PLA Navy Commander Shen Jinlong. China was asked to provide additional support for monitoring NK military activities after an NK submarine sailed 100 km into international waters in the East China Sea, much further than before. There is some concern that NK is planning to launch a nuclear missile from a submarine. (2)

The great question is what does the U.S. risk by removing Kim Jong-un, either by military means or another avenue? Defense Secretary Mattis has on several occasions strongly warned against direct, military actions unless there are no other options. China would almost certainly retaliate against U.S. forces in South Korea, civilian casualties would be significant, as well as infrastructure destroyed. In Japan where significant U.S. forces are housed, there would also be a risk of meaningful loss of lives, civilian and military. So with President Trump signaling something has to be done, what is to be done?

The South Korean markets are signaling nothing done. KOSPI has traded straight up since the elections and there is little sign of stress in the money markets. The South Korean Won has not collapsed, nor on a broader scale have the Asian markets done anything but perform well this year. So like so many situations this year, there seems to be a significant risk building up over North Korea yet markets are totally ignoring it. Normally, Mr. Market would give us a signal that hostilities were about to break out. But this time, I do not think Mr. Market will be able to call this one. In fact, it may be the other way round. I recall a comment made some years ago that the best way to handle a market, which was going to fall, would be to get it to rise as far as possible first- then after the fall there was more value that remained, from which to rebuild. Is that what is happening in South Korea?

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KOSPI Index



Source: Bloomberg LP

Sources:

Bloomberg Data

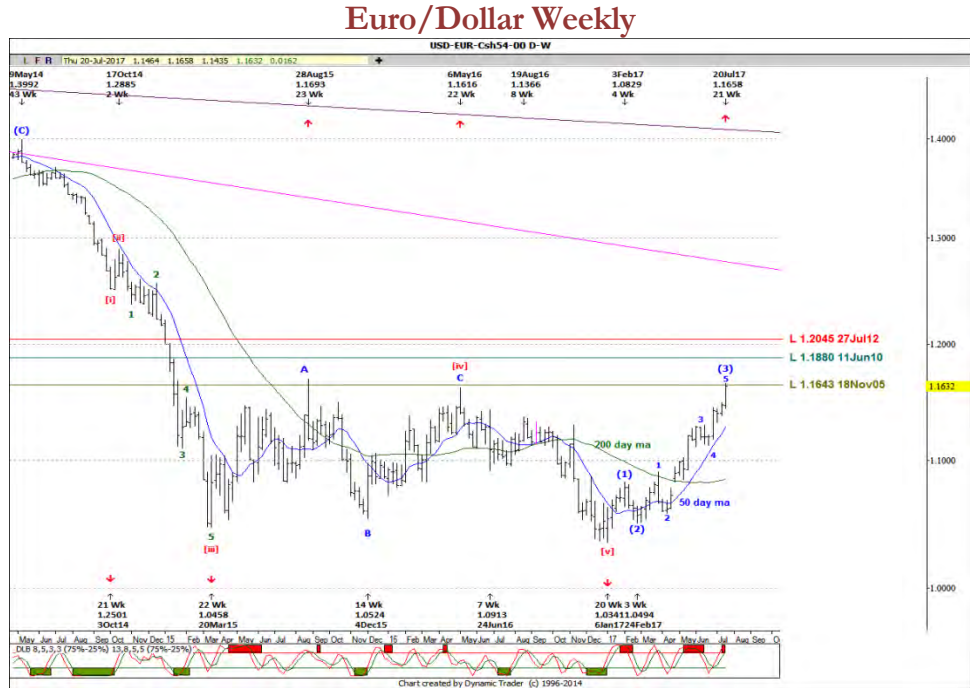
- (1) TruNews.com, April 17, 2017
- (2) Scmp.com, Trump plan to allow US navy more freedom to patrol, July 23, 2017

➤ **EURO/DOLLAR**

Euro/Dollar



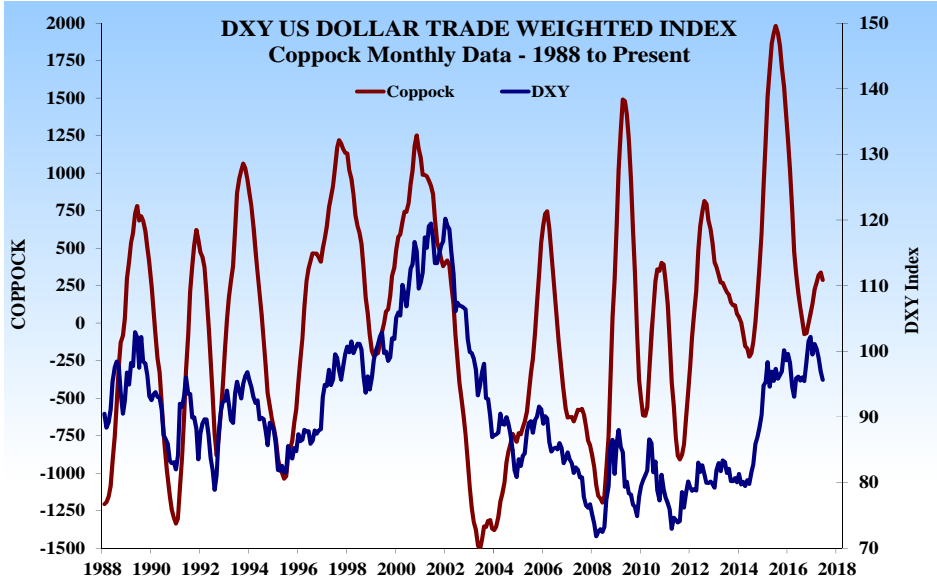
Source: 618034 Ltd.



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The Euro/Dollar has achieved the target range of 1.14-1.16 and should be within a few days of starting a correction. For Elliott Wave fans, this is the Wave 5 of a larger degree Wave 3. The first chart suggests a retracement to 1.13 is where support should hold. Wave 5 of a larger degree suggests Euro/Dollar can then move much higher. In previous MIR's I have commented that the Dollar has peaked on a 7.8-year cycle basis. Euro/Dollar is crucial to that view.

The Dollar's Coppock curve has also moved lower, suggesting a Dollar top is in place. Implications for commodities and U.S. corporate earnings are bullish, if the Dollar continues on its current course.



Source: Bloomberg LP

Source: Bloomberg Data

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