Monday December 2nd, 2013

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, December 2nd

The Tempe, Arizona-based Institute for Supply Management's (ISM) U.S. manufacturing index rose to a reading of 57.3 in November – the highest level since April 2011 – from a reading of 56.4 in October. Russell Price, an economist at Ameriprise Financial Inc.

MONDAY, DECEMBER 2ND

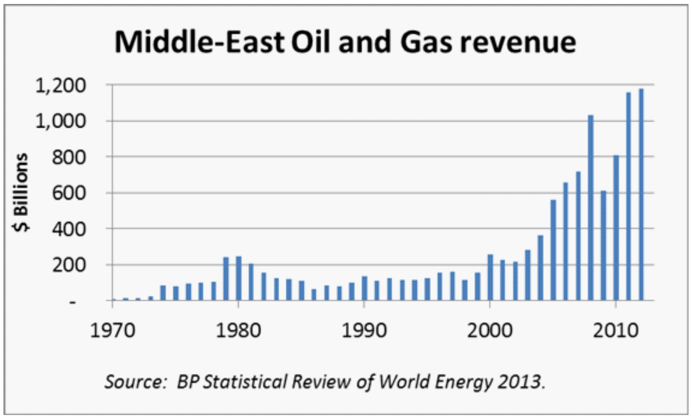
in Detroit noted: "Manufacturing is likely to continue to receive a tailwind from the (economic) recovery in Europe and the ongoing but slower paced recovery in the (U.S.) housing industry."

- Front Page Headline, Financial Times – "Rating Agencies Face Threat of Fines Following EU Sovereign Debt Probe. The European Securities and Markets Authority (ESMA) announces: 'An investigation into the methodologies used by Moody's Investors Service, Standard and Poor's and Fitch Ratings has discovered deficiencies that pose risks to the quality, independence and integrity of sovereign debt credit ratings. Our review raises concerns over delays in the publication of ratings changes, the use of junior staff to lead analysis of sovereigns and the involvement of senior company management in ratings decisions. Deficiencies also include disclosure of forthcoming ratings actions to an unauthorized third party and inadequate controls related to the use of external communications consultants. While we are recommending remedial action to fix the problems, we have not yet decided if the problems amounted to breaches of European Union regulations covering ratings agencies.' If ESMA were to launch a formal enforcement action, the regulator could levy fines or withdraw an agency's registration."

- Front Page Headline, Finance and Economics –"Arab Gold. Alasdair MacLeod writes: In a 2006 speech before the U.S. Congress, former Republican Senator Ron Paul (now retired) concluded his remarks thusly: 'The chaos that one day will ensue from our 35-year experiment with worldwide fiat money will require a return to money of real value. We will know that day is approaching when oil producing countries demand gold, or its equivalent, for their oil rather than dollars or euros.' Today, this is probably considered a pie-in-the-sky comment by most people. However, they would be wrong not to consider it more seriously in the light of subsequent events. The possibility of the demise of the petrodollar is increasing quite rapidly for two reasons. Firstly, oil consumption by the U.S. has declined from 38% of the world's total in 1965 to less than 20% today, while Asia/Pacific consumption has increased threefold to over 33%. In addition, due to shale oil production, U.S. oil imports are expected to decline further in the coming years – perhaps eliminating her oil deficit entirely – thus negating the need for petrodollars. This leaves the Arab nations with a stack of useless dollars. The chart on the next page illustrates the enormity of their problem.

During the period of 1970 to the year 2000, total energy export revenue (ignoring compound interest) totaled $3.5 trillion (U.S.) and in the thirteen years since then over $8 trillion (U.S.). With interest and despite accelerated infrastructure spending since the late 1990s, that still leaves, enormous currency balances in Middle-Eastern hands, likely to be a number between $8- $10 trillion (U.S.), with a large element of it still in dollars. Secondly, America's failure to support Mubarak in Egypt, the volte-face over Syria and now the détente with Iran have altered long-term relations with Saudi Arabia, forcing her to reconsider strategic options for the future and to focus on her own interests. Both Saudi Arabia and Israel realize that America is no longer prepared to be the regional policeman. Moreover, when U.S. President Obama unsuccessfully approached Russian President Putin for help over Syria and got nowhere, it must have only heightened the Saudi's sense of insecurity. One could argue that it all comes down to the money, but the other reality is U.S. electoral fatigue after Iraq and Afghanistan; so a logical reassessment shows the region's future on both trade and strategic grounds, is increasingly focused towards Asia and Europe, not the United States.

The currency replacement for the petrodollar need not concern us for the moment. More interesting is the regional attitude to gold, which was acquired in large quantities up to the mid-1990s, as insurance against this eventual outcome. Interestingly, I have discovered from contacts in the Swiss refining industry that some of this gold in LBMA 400 ounce gold bars is now being recast into the new Chinese 9999 standard of 1 kilo bars. It is not immediately clear why Arab gold is being recast. However, taking into account the significant shift in the region's trade and strategic options, it becomes clear that gold held for eventual resale into dollar-denominated markets makes no sense at all, particularly when there are enormous dollar balances that must also be addressed. However, the Arabs know that if they sell their dollars they will risk undermining the entire fiat currency regime. Therefore, it is quite possible they will seek as an alternative, to take at least a portion of their oil revenue in gold or its equivalent, as Ron Paul suggested; so he had a point seven years ago and the foreign exchanges should now begin to anticipate this event. There is a lesson for us in this: when we are distracted by China's accelerating demand for gold and her conflicting desire not to trigger a financial crisis, the unexpected catalyst for monetary chaos may well be the actions of the Middle-Eastern potentates who cornered the gold market 30 years ago."



- Front Page Headline, Daily Telegraph U.K. – "Manufacturing in U.K. Expands at Fastest Pace in Three Years. The Markit-CIPS purchasing managers' index reveals a solid upturn in U.K. manufacturing, citing a PMI reading of 58.4 – the highest level since February 2011 – in November, driven by substantial increases in both manufacturing production and by new orders from Asia, the United States, Germany, France, Ireland, Belgium and the Middle East." See Markit Economics chart below.

TUESDAY, DECEMBER 3RD

- Front Page Headline, MarketWatch News – "Detroit Eligible to File for Chapter 11 Bankruptcy Protection. U.S. Bankruptcy Judge Steven Rhodes' ruling clears the way for the city – the largest ever to declare bankruptcy – to restructure its $18 billion (U.S.) municipal debt. Moreover, in a decision that is certainly going to be closely monitored by other struggling municipal governments, Judge Rhodes ruled that the city's public sector pensions could be reduced as part of the restructuring. In a summary statement, Judge Rhodes declared: 'Pension benefits are a contractual obligation of a municipality and are not entitled to any heightened protection in bankruptcy. Therefore, Michigan's state constitutional protection for pensions does not apply to the federal bankruptcy court … Essentially, the wide-ranging collapse of Detroit's finances made it impossible for the city to reach out-of-court settlements with its thousands of creditors."

The Detroit skyline as viewed from Windsor, Ontario.
Source: Shutterstock

- The Illinois Legislature ends a day of emotional debate and fierce back-room arm-twisting, by passing a compromise agreement to fund the state's debt-engulfed pension system by trimming retiree benefits and increasing state contributions. In a statement after the vote, Illinois Governor Pat Quinn – who made overhauling the pension system a focus of his administration – observed: "Today, we have won. This landmark legislation is a bipartisan solution which squarely addresses the most difficult fiscal issue Illinois has ever confronted." With one of America's worst financed state employee pension systems – some $100 billion (U.S.) in arrears – Illinois has been the focus of intense attention across the country as other states and municipalities struggle to solve their own public pension problems. Accordingly, Illinois' compromise agreement could provide a template for agreements elsewhere.

- The Bureau of Statistics reports Australia's gross domestic product (GDP) grew by an annualized 0.6% in the 3rd. quarter, following a revised 0.7% growth rate in the 2nd. quarter, citing slower non-residential construction activity and lower business investment in machinery and equipment.

- Front Page Headline, Financial Post – "Potash Corp. Announces 1,045 Job Layoffs. Saskatchewan – based Potash Corp. President and CEO Bill Doyle announces layoffs equivalent to 18% of the company's workforce: 'This is a difficult day for our employees and our company. While these are steps we must take to operate a sustainable business and protect the long-term interests of all our stakeholders, these decisions are never easy.' Prices for potash, phosphate and nitrogen have been trending down since last year. In addition, the potash market was thrown into chaos last summer when Russia's OAO Uralkali disbanded a cartel marketing company. Potential buyers have limited purchases because of the uncertain industry outlook. Most of the corporate layoffs are in the potash and phosphate units."

- Front Page Headline, Financial Post – "BMO Lays Off Nearly 1,000 Staff in Current Quarter. In a conference call, Bank of Montreal Chief Operating Officer (COO) Frank Techar confirmed the bank made the staff cuts 'in an effort to reduce expenses and make the bank's overall operations more efficient. The total staff reductions were full-time equivalent positions, which are calculated on an average work week, but can also include part-time jobs.' Most of the bank's layoffs were made in the BMO's Canadian personal and commercial banking operations, where about 730 jobs were eliminated.

- Front Page Headline, Financial Times – "Strong U.S. Sales Boost Detroit Big Three Automakers. All three of the big American automakers achieved strong domestic sales in November, citing falling fuel prices, cheap financing and improved model ranges helped them to seize market share. General Motors, the market leader by sales, posted particularly strong growth selling 14% more vehicles than in November 2012; aided by a 41% increase in sales of its Chevrolet Malibu midsize sedan and robust demand for its Chevrolet Silverado pickup truck. Ford Motor also benefitted in a strong increase in truck demand, selling 16.3% more of its F-series pickups than last November. Ford also sold 51% more fusion sedans than in the same time period last year. Overall, Ford's new vehicle sales were up 7% in November on a year over year basis. However, Chrysler – in fourth place by domestic sales – posted the strongest performance of all the U.S. automakers, with sales 16% higher than in November 2012, boosted by the popularity of its new Jeep Cherokee sport utility vehicle (SUV)."

- Front Page Headline, Le Metropole Café – "Intelligence Gathering Plays Key Role at New York Fed's Trading Desk.

Speed Dials to Wall Street Firms and Bloomberg Terminals. Source: Le Metropole Café

On any given business day, one can take a taxi ride into lower Manhattan in the early morning and see lights and the glow of Bloomberg trading terminals eerily illuminating the 9th. floor of the historic Federal Reserve Bank of New York at 33 Liberty Street. A securities trader working at 4:30 a.m. in any other trading location in Manhattan might be concerned about personal safety, but not in this location. Quietly, without Congressional hearings and lost in the tragedy and turmoil of September 11th., the U.S.A. Patriot Act of 2001 bestowed private domestic policing powers on the 12 Federal Reserve Banks, including the New York Fed … There is also the comfort of knowing that if this fortress is safe enough for one of the world's largest vaults of gold, it's likely safe enough for sleepy traders. The triple-tired gold vault rests on a bedrock foundation deep below the building, which not only supports the gold, but also, a 90-ton vault door and a 140-ton door frame. The building was literally constructed around the gold vault after it was installed.

Karin Kimbrough, the Director of Financial Stability Market Monitoring at the New York Fed, has participated in an educational video to explain what transpires all day in their trading room. According to Kimbrough, the traders take turns arriving at 4:30 a.m. to get a jump on market intelligence by calling their contacts in London, Frankfurt and Tokyo. Market intelligence is now a top priority for the Markets Group which oversees the trading function at the New York Fed; the only one of the 12 regional Federal Reserve banks to possess its own trading floor. Kimbrough explains what the traders and analysts are searching for in the way of anomalies in markets: "If there was a fundamental reason to see German Bund yields rising, what would be the consistent view across all asset prices? Are we seeing something similar in other sovereign bond markets? Are we seeing something moving in equity markets? Typically, we also try to think a little bit about the context of these moves. Are they large moves; are they moves that we see daily and really something that we're expecting every morning or every season?" Monitoring equity markets is not something that was heretofore understood to be the purview of the New York Fed or the Federal Reserve System, which functions as the central bank of the United States and is tasked with carrying out monetary policy. However, as we reported last week, for some inexplicable reason, the New York Fed now has its own equity analyst team looking at the stock performances of the biggest American banks. (That gives a whole new meaning to mission creep). According to a 1997 report by Michael Akbar Akhtar, then a Vice President of the New York Fed, the Markets Group was previously teleconferencing just once daily with the Federal Reserve Board of Governors' offices in Washington, D.C. Today, a second teleconference has been added in the afternoon, suggesting that the 2008 Wall Street crash created a heightened sense of need for global intelligence gathering. Kimbrough relates that following the early morning Intel phone calls, the traders and analysts meet "about 8:00 a.m. to have a discussion with the entire trading desk – which can include as many as 60 people – to talk about what they're seeing and think about what constitutes the right questions to investigate during the day." At 9:30 a.m. the day's intelligence is formally presented to the Federal Reserve Board of Governors in a teleconference.

Certainly, the average American investor does not have a direct phone line to Wall Street traders to pick their brains for behind-the-scenes intelligence. If the price action of the individual securities, or sectors, is no longer adequate to discern what is happening in the market, why should the small investor participate? The New York Fed is obviously battle-scarred from the 2008 market crash and attempting to comfort itself through increased intelligence efforts. The irony is that its intelligence is being derived from the very Wall Street firms which have lobbied Congress to build this opaque and inefficient marketplace. All of these efforts at super-sleuthing (which are destined to fail because of the source of the intelligence) would be unnecessary if the trillions of dollars of derivatives now traded in the dark were moved onto transparent exchanges; if Wall Street firms were forced to stop internalizing their order flow and subject buy and sell orders to the light of day; if traders from across multiple firms were prohibited from colluding in chat rooms on Bloomberg terminals; and if Wall Street's private justice system – which ushers customer complaints and compliance issues into the darkness of mandatory arbitration hotel rooms – was restored to the disinfecting sunlight of our nation's courts and an inquiring press. This is a game of folly that will not end well for any of us."

WEDNESDAY, DECEMBER 4TH

- The Commerce Department reports U.S. new home sales rose by 25.4% to an annualized pace of 444,000 units in October, following a 354,000 rate in September. Millan Mulraine, a research director at TD Securities in New York, noted: "The worst of the impact of higher mortgage rates seems to be over. If we continue to see improvements in employment and if mortgage rates stabilize, we should see these sales levels sustained."

- The Roseland, New Jersey-based ADP Research Institute reports private sector companies boosted payrolls by 215,000 hirings in November

- The Commerce Department reports America's trade deficit narrowed by 5.4% to $40.62 billion (U.S.) in October, from a $43 billion (U.S.) shortfall in September.

- The Tempe, Arizona-based Institute for Supply Management (ISM) reports its non-manufacturing index declined to a reading of 53.9 in November from a level of 55.4 in October. Dean Maki, an economist at Barclay's Plc in New York noted: "While this is still a moderate economic recovery, the data suggest that it is perhaps a bit stronger than what we saw about a year ago."

- In reaffirming Spain's 'Baa3' sovereign debt credit rating, Moody's Investors Service raised the country's credit rating outlook to stable from negative, citing: "A decrease in market access risks for Spanish sovereign debt and the lower risk of contagion from negative events elsewhere in the euro zone over the last 12 months; as well as a significant reduction in contingent liabilities for the nation from the Spanish banking sector, spurred the improved rating outlook. Moody's now believes that any further potential recapitalization needs of the Spanish banking system would be limited in size and unlikely to derail the slowly improving trend in the country's public finances."

- Front Page Headline, Globe and Mail – "Canada's Housing Market Continues to Rebound. The Toronto Real Estate Board reports home sales by way of the MLS system in Greater Toronto rose by 13.9% in November on a year-over-year basis. Detached homes in the downtown area registered a 23.9% gain in sales, while sales of existing downtown condos rose by 12.7%. Meanwhile, the Calgary Real Estate Board reported that home sales in that city were 19% higher than last November and year-to-date, Calgary's sales are 11% higher than the long term average. The Real Estate Board of Greater Vancouver reported that home sales were up by 37.7% in November from a year ago, but 1.2% below the 10-year average."

- Front Page Headline, Wall Street Journal – "EU Fines Financial Institutions over Interest Rate Manipulations. Several financial institutions were fined 1.71 billion euros ($2.32 billion U.S.) by European Union regulators today, for colluding in an attempt to manipulate the London Interbank Offered Rate (LIBOR) and other widely used key benchmark interest rates. The settlements involved penalties against some of the world's biggest banks, including Deutsche Bank AG, Societe Generale SA, Royal Bank of Scotland Group PLC, JP Morgan Chase & Co. and CitiGroup Inc. At a Brussels news conference, EU competition commissioner Joaquin Almunia stated that his office is also pursuing cartel proceedings against some other large financial institutions, including the U.K.'s HSBC Holdings PLC, ICAP PLC and France's Credit Agricole for their alleged roles in colluding to rig one or more benchmark interest rates. Mr. Almunia added: 'The EU is determined to pursue all those who may have been involved in the cartel. If the institutions are proven guilty, they will receive adequate sanctions."

- Front Page Headline, New York Times – "Chicago Pursues Agreement to Change Pension Funding. The hard-fought passage on Tuesday of a landmark bill trimming retirement benefits for Illinois state workers, aimed at fixing the vastly underfunded pension system, has become instantly relevant to the nation's third largest city, which has its own pension systems in various stages of financial collapse. If anything, the day of atonement in Chicago is even nearer and more difficult than the one the state had faced, placing its Democratic Mayor Rahm Emanuel, in a difficult position under a tight deadline. Under state law, Chicago must increase its contributions to its workers' pension funds by $590 million (U.S.) in 2015, to a total annual contribution of $ 1.4 billion (U.S.) for current and future retirees. If no pension agreement can be reached by November of 2015, when the city will draft its next budget, Chicago will either have to raise taxes, or cut services, or some combination of both. However, city officials are hoping there is now momentum on their side to force a compromise solution. They come armed not only with Tuesday's state vote, but also with a federal judge's ruling, also on Tuesday, to formally send Detroit into bankruptcy. Chicago is not facing bankruptcy, but the Detroit case produced a development being watched closely by cities and unions across the country: It explicitly permitted changes to public pension funds to help the city shed its debts and reorganize.

  In an e-mail today, Mr. Emanuel stated: 'Should Chicago fail to obtain pension relief soon, we will be faced with a 2015 budget that will either double city property taxes or, eliminate the vital services upon which people rely. To avoid that, we need a balanced approach. We need a plan that is fair to both workers and taxpayers and gives them both the certainty and security they are seeking. Pension changes must be part of the calculus. Without reform and revenue, we cannot make the critical investments in our future and the future of our children and neighbourhoods. Without reform and revenue, we cannot be the city that we aspire to be."

THURSDAY, DECEMBER 5TH

- Separately, the Commerce Department reports the U.S. gross domestic product (GDP) grew by a 3.6% annualized rate in the 3rd. quarter, fuelled by the biggest increase in inventories in 15 years. Lewis Alexander, an economist at Nomura Holdings in New York, commented: "Despite the relative optimism reported in business surveys, there is still an unanswered question: Are businesses sufficiently confident (about the economic outlook) to actually boost hiring and capital spending?"

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 23,000 to 298,000 in the week ended November 30th. while continuing claims fell by 21,000 to 2.74 million in the week ended November 23rd. Those Americans who have exhausted their traditional state benefits and are now receiving emergency or extended benefits under federal programs increased by about 45,300 to 1.35 million in the week ended November 16th.

- Front Page Headline, New York Times – "U.S. Treasury Secretary Declares Big Gains in Financial Reform. In a broad policy speech delivered at the Pew Charitable Trusts office in Washington, U.S. Treasury Secretary Jack Lew stated: 'Five years ago, President Obama faced an economy teetering on the edge. In response, he quickly moved to put out the financial fires, restore (economic) growth and get people back to work. However, he was also determined to make certain that such a financial crisis as that never happens again. This effort produced the most comprehensive overhaul of our financial system since the Great Depression, bringing our financial system into the 21st. century and creating tools to address complex and ever-changing markets and institutions. These reforms created the strongest new financial safeguards for consumers and investors in nearly a century. Moreover, as a matter of law, they state clearly that no financial institution is 'too big to fail.' Now, five years later, our economy has steadily grown. Our businesses have created nearly 8 million jobs over the past 44 months. Our housing market is recovering and our financial system is stronger and once again an engine for economic growth. Considerable progress has been made. One of the main drivers of this progress has been the extensive work of agencies and regulators to repair a badly damaged financial system. As regulators complete the remaining core elements of Wall Street Reform, there are four things we must keep in mind. Firstly, the rules of the road must be effective and designed to address the modern financial markets. Secondly, we must make certain that regulators have the resources necessary to get the job done and that they are held accountable. Thirdly, other countries need comparably strong standards and mechanisms to address risks that reach across borders. Fourthly, we must remain vigilant to potential new threats, constantly monitoring the way that risks change and evolve, while pursuing reforms to reduce risks stemming from both traditional banking and the shadow banking system."

U.S. Treasury Secretary Jack Lew.
Source: Associated Press

- The Commerce Department reports U.S. factory orders declined by 0.9% to $486.9 billion (U.S.) in October – following an increase of 1.7% in September – citing fewer orders for both durable and non-durable goods.

- Front Page Headline, Daily Telegraph U.K. – "Qantas Announces 1,000 Job Layoffs. Australian airline Qantas – Australia's largest carrier – also warned of 'immense challenges' and predicted a 6-month loss of up to $300 million (AUD). At a media teleconference, Chief Executive Officer Alan Joyce disclosed: 'Our November figures reflect a continued deterioration in the revenue performance of the business and our competition Virgin Australia – exempt from certain regulations – has just received a subsidy of $350 million (AUD), meaning they can continue their uncommercial behavior. Accordingly, we are putting all of our options on the table in a review of our (corporate) structure."

Source: Reuters

- Front Page Headline, Zero Hedge – "Inventory Hoarding Accounts for Nearly 60% of U.S. GDP Growth in the Past Year. As reported above, while on the surface, the final 3rd. quarter U.S. GDP growth estimate was a surprising 3.6%, the reality is that 100% of the growth rate – since the preliminary estimate – emanated from a revised estimate of the total private inventories which were stockpiled during the quarter. In effect, of the $230 billion (U.S.) of the total increase in the GDP rate, $146 billion (U.S.), or over 63%, was as a result of inventory stockpiling. So, how does (business) inventory hoarding – that most hollow of GDP growth components, since it relies upon future purchases by a consumer who has increasingly less purchasing power – look like historically? The chart on the next page outlines the quarterly change in the revised GDP series since March 2003, illustrated by inventories (in yellow) and other non-inventory components (in blue).

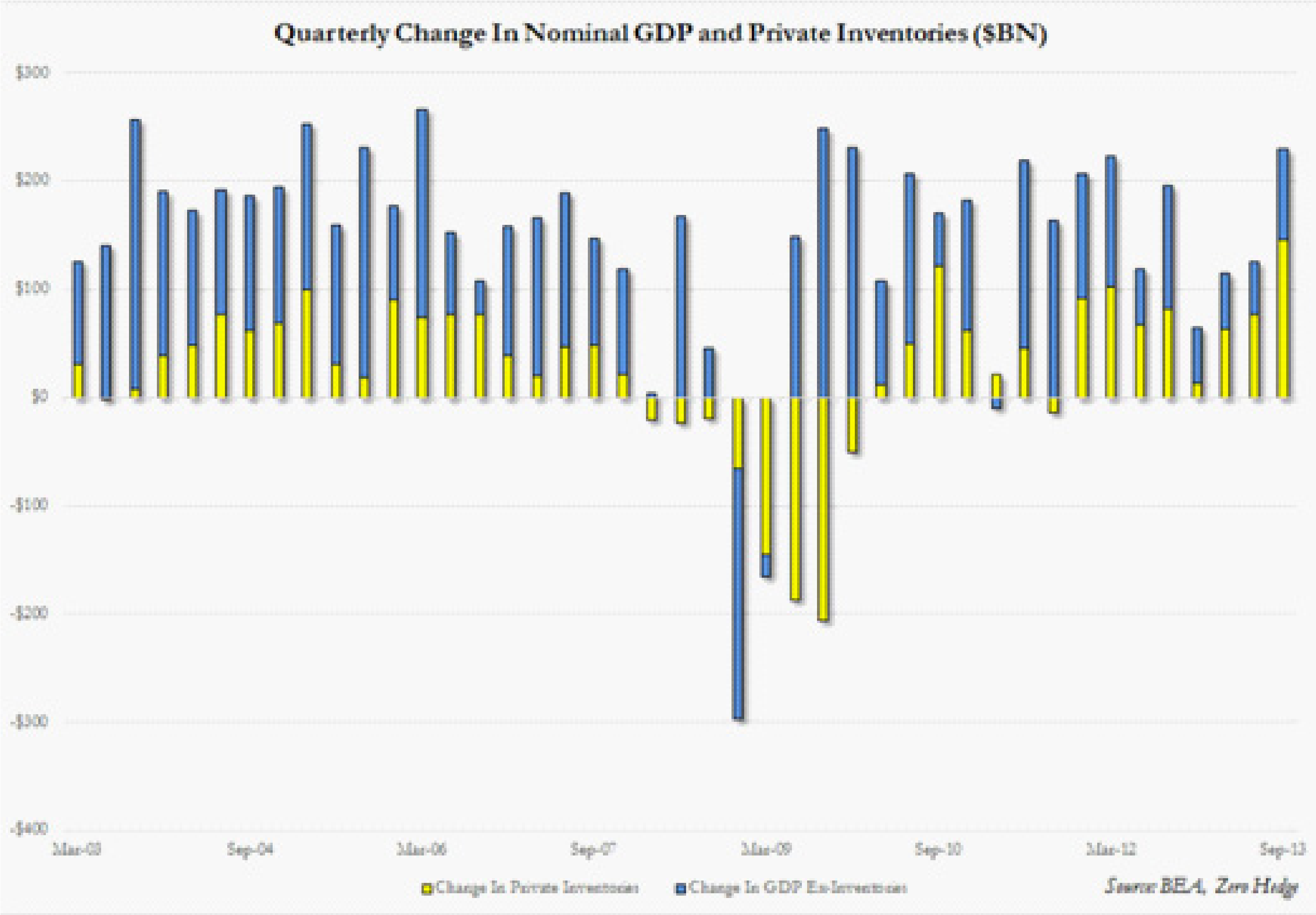
  However, where the scramble to accumulate inventory in the hope that it will be sold profitably – sooner or later to buyers either domestic or foreign – is in the data from the past four consecutive quarters. The result is, of the $543 billion (U.S.) increase, in nominal GDP in the past year, a whopping 56% of this is resultant from nothing else but inventory stockpiling. See the second chart on the next page.

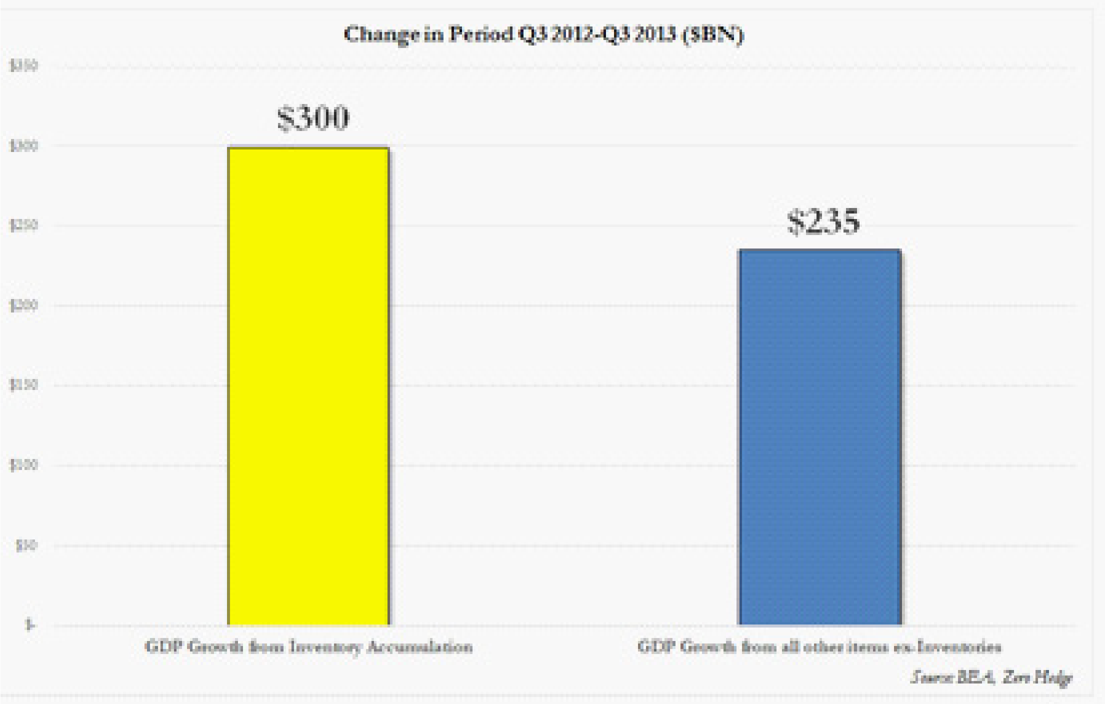
  The problem with inventory stockpiling, however, is that at some point it must be unloaded. This is why many (economists) expect downward revisions to future GDP quarterly reports."

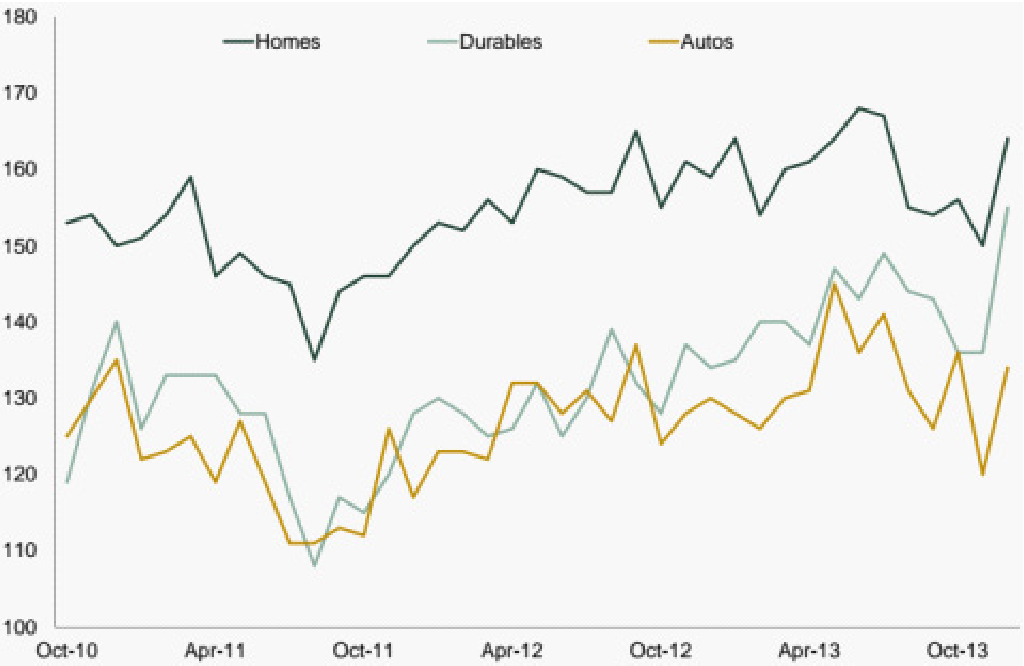
- Front Page Headline, Finance and Economics – "Gold and Interest Rates. Alasdair MacLeod postulates that a common misconception in the marketplace about the price of gold is that rising interest rates in support of any given currency will correspondingly always drive the price of gold down. However, the primary driver is changes between the relative quantities of gold and currency, with an overlay of changes in confidence for the currency itself. This quantity relationship is simple to understand and requires little elaboration; but it does not mean that a doubling in the quantity of paper money automatically, leads to a doubling of the price of gold. The reason is the purchasing power of a currency can and does vary independently from changes in its quantity. However, gold is viewed by the majority of the world's population as a better store of value than domestic currency, so its appeal is global instead of being tied to a single currency's (national) jurisdiction. If a central bank tightens monetary policy to fully discount expectations of rising (administered) rates, then traders will sell gold on the basis that a central bank is leaning toward a hard monetary policy, lessening the attraction of gold as an inflation hedge. Such traders will also point out that the cost of foregoing higher interest rates for currency deposits makes ownership of gold less attractive. These were the conditions introduced by the U.S. Federal Reserve and the Bank of England in the early 1980's, which contributed to the drop in the gold price for the rest of the decade. The second relationship which helped drive the gold price in the 1970s is the opposite. In this case, the central bank is reluctant to raise (administered) interest rates until forced to do so. This bias is towards a weak monetary policy, which is beneficial for gold and in this case, rising interest rates do not lessen gold's attractions. Today, the market can best be described as confused. Prospects for economic growth and price inflation are far from clear from the market consensus, so talk of the Fed tapering (its current quantitative easing monetary policy) is seen as injecting a deflationary bias. For this reason, when bond yields rise, the price of gold weakens. Traders in paper (currency) markets are only interested in short-term relationships; therefore, they pay little or no attention to long-term fundamentals. If one considers the relative increases in the quantity of gold and a fiat currency such as the U.S. dollar, gold today is demonstrably undervalued compared with where it was (valued) before the Lehman crisis. This is confirmed be physical metal being driven out of market circulation. Sooner or later, those traders ignorant of Gresham's law and believing that interest rates are the sole determinant of the direction of prices will receive an interesting wake-up call."

FRIDAY, DECEMBER 6TH

- The University of Michigan / Thomson Reuters group report their index of U. S. consumer confidence rose to a preliminary reading of 82.5 in December – the highest level since July—from a final reading of 75.1 in November. In a research note to clients, Gennadly Goldberg, a strategist at TD Securities commented: "This rebound in consumer confidence is particularly encouraging since confidence has recently underperformed real consumer spending data. The latest Michigan report suggests that this gap between the indicators is now closing, (thereby) reducing downside risks to consumer spending activity." See chart on page 9.


Quarterly Change In Nominal GDP and Private Inventories ($BN)
$300
$200
$100
$0
-$100
-$200
-$300
-$400
Mar-03
Sep-04
Mar-06
Sep-07
Mar-09
Sep-10
Mar-12
Sep-13
Change In Private Inventories
Change In GDP Ex-Inventories
Source: BEA, Zero Hedge

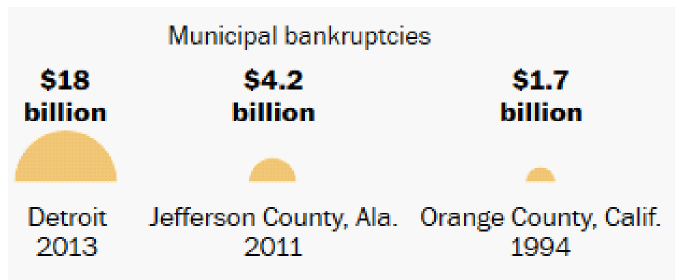

Change in Period Q3 2012-Q3 2013 ($BN)
$300
$235
GDP Growth from Inventory Accumulation
GDP Growth from all other items ex-Inventories
Source: BEA, Zero Hedge



- The Labor Department reports U.S. non-farm payrolls increased by 203,000 in November, while the official unemployment rate fell to a seasonally adjusted 7% from 7.3% in October, the lowest level since November 2008. See charts below and to the right.

- Front Page Headline, Mish's Global Economic Trend Analysis – "Is Puerto Rico the Next Detroit? Puerto Rico has been in recession for 8 years. The unemployment rate is 15% and debt has piled up to the tune of $70 billion (U.S.). By comparison, California's public debt is $96 billion (U.S.) and Detroit's debt is $18 billion. Wall Street rates Puerto Rico's bonds at one level above junk. How did Puerto Rico get into trouble? The short answer is the same way as Detroit: loss of industry coupled with lavish pensions … Officials in both San Juan and Washington are adamant that an (American) federal bailout is not on the table, however the situation is being closely monitored by the White House, which recently named an advisory team to assist Puerto Rican officials in navigating the crisis. The Island's problems have ignited a (population) exodus not seen since the 1950s, when 500,000 people left for jobs on the mainland. Now Puerto Ricans, who are U.S. citizens, are again leaving in droves. Puerto Rico lost 54,000 residents – 1.5% of its population – between 2010 and 2012 alone. Since the recession struck in 2006, the population has shrunk by more than 138,000 to 3.7 million, with the vast majority of the outflow headed to the mainland.

  Puerto Rico's expansive web of debt includes standard government bonds as well as those floated by public corporations; including authorities for water and sewer, highways and electric power. Together, those debts have nearly tripled since 2000, as successive administrations turned to the bond market to plug gaping budget deficits. In addition to the $70 billion (U.S.) in government debt, the government also faces $37 billion (U.S.) in unfunded pension obligations. Since 1996, the number of factory jobs in Puerto Rico has plummeted to 75,000 from 160,000. Moreover, while government workers comprise about a quarter of the commonwealth's workforce – much higher than the U.S. average of 16% -- their ranks are shrinking. Now, only about 41% of working-age Puerto Ricans have a job, or are even in search of one. As work has disappeared, more Puerto Ricans have relied upon the government for survival. About a third of the commonwealth's population relies upon food stamps and residents of the island are twice as likely as those on the mainland to receive Social Security disability benefits. Job flight, high crime rates and huge pension woes in Puerto Rico seem similar to the problems in Detroit. However, there is no constitutional provision which allows U.S. states and commonwealths to declare bankruptcy. Compounding the problem, Puerto Rico passed a massive set of tax hikes including corporate taxes, a broadened sales tax and a new gross receipts levy; hoping to get its budget under control. Given that tax hikes levied in the middle of a recession are about the worst possible decision, the situation is ominous. So, how is Puerto Rico's debt going to be repaid? The answer is it won't be. Although bankruptcy is not an option, nothing can prevent a default except a (financial) bailout by the United States. Given that bailouts from this Republican Congress are unlikely, look for Puerto Rico to default." See Mish's Global Economic Trend Analysis charts below.



- Front Page Headline, Mish's Global Economic Trend Analysis – "France Plans Tougher Exit Tax. In a feudal as well as futile attempt to prevent wealthy French citizens from leaving the country, the French government is hiking its Exit Tax on transfers of wealth outside of France. The government also lowered the tax base and increased the number of items to which the tax applies … Writing in the National Review, reporter Veronique de Rugy notes: 'The French government seems committed to taxing itself beyond the point of no (economic) recovery. In particular, over the last four years, France has relied heavily upon tax increases in attempts to contain its huge (budget) deficits. The French electorate well remembers how President Hollande campaigned for and then proposed a 75% personal income tax rate on those citizens earning in excess of one million euros per annum.' One aspect of France's confiscatory taxes, which is often overlooked by Americans, is that former President Nicolas Sarkozy had almost as bad a track record as Hollande, when it came to raising taxes. In fact, data compiled by taxpayers' watch groups and newspapers show that between 2007 and the end of 2012, French taxpayers were subjected to 205 separate increases in their tax burden; from excise levees on televisions, tobacco and diet sodas, to multiple increases in the capital taxes, plus a wealth tax hike. Sarkozy is also responsible for increasing the top marginal income tax rate from 40% to 41% in 2010, and again to 45% in 2012 … Since March 3, 2011, French taxpayers with wealth in excess of 1.3 million euros – electing to transfer their fiscal residence abroad – are subject to a tax on latent capital gains crystallized at the time of their departure, if they cede the assets within eight years. Significantly tightening the existing provisions, the adopted parliamentary amendment provides that the threshold for the application of the levy should be lowered to 800,000 euros. Furthermore, the measure stipulates that the tax should be due if taxpayers cede their assets within 15 years following their expatriation, rather than eight. Despite the tough stance, the measure is expected to have very little impact on the public finances. Last year, the exit tax served to yield a meagre 53 million euros for the state."

CLOSING LEVELS FOR FRIDAY, DECEMBER 6TH.		WEEKLY CHANGE
Dow Jones Industrial Average	16,020.20	– 66.21 points
Spot Gold Bullion	$1, 229.00 (U.S.)	– $21.40 per oz.
S&P / TSX Composite	13,280.72	– 114.68 points
10-Year U.S. Treasury Yield	2.86%	+ 12 basis points
Canadian Dollar	93.84 cents (U.S.)	– 0.32 cent
U.S. Dollar Index Future	80.259	– 0.289 cent
WTI Crude Oil Futures	$97.65	+ $4.93 per barrel

Ian A. Gordon, The Long Wave Analyst www.longwavegroup.com