

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

# THAT WAS THE WEEK THAT WAS



**Monday, August 26th**

- Argentina has lost an appeal of a US court order requiring it to pay \$1.33 billion to dissident bondholders

Monday, August 26th

led by hedge funds NML Capital LTD, which is a unit of Paul Singer's Elliott Management Corp, and Aurelius Capital Management. This case stems from Argentina's \$100 billion dollar debt default in 2001. In two restructurings in 2005 and 2010, creditors holding about 93% of the debt received 25 cents to 29 cents on the dollar. The dissident bondholders refused to accept the restructuring and demanded repayment in full.

In New York, in November 2012, US District Judge Thomas Griesa ordered Argentina to pay \$1.33 billion into a court-controlled escrow account for the dissident bondholders and not pay its other bondholders without making the payment.

Having lost the appeal against Judge Griesa's ruling, Argentina must await a decision by the US Supreme Court as to whether it will hear the case or not. If the Supreme Court does agree to take on the case, it may not rule until June 2014.

- The Telegraph - "**Britain To Be Roped Into EU Rescue Aid for Greece.**" It is anticipated that Greece will require a third rescue package worth more than €10bn in 2014.

According to the Greek daily Kathimerini, Athens and Brussels are negotiating the use of EU structural funds that draw on the collective EU budget rather than a debt haircut for current creditors to effect the required funds.

- Mineweb Article authored by Lawrence Williams - "**From Two-tier Gold Backwardation to Gold Scam! - Fekete.**" "Antal Fekete, who is more worried about hyperdeflation than hyperinflation and its potential apocalyptic consequences.

Read the full story here:

<http://www.mineweb.com/mineweb/content/en/mineweb-gold-analysis?oid=202353&sn=Detail>

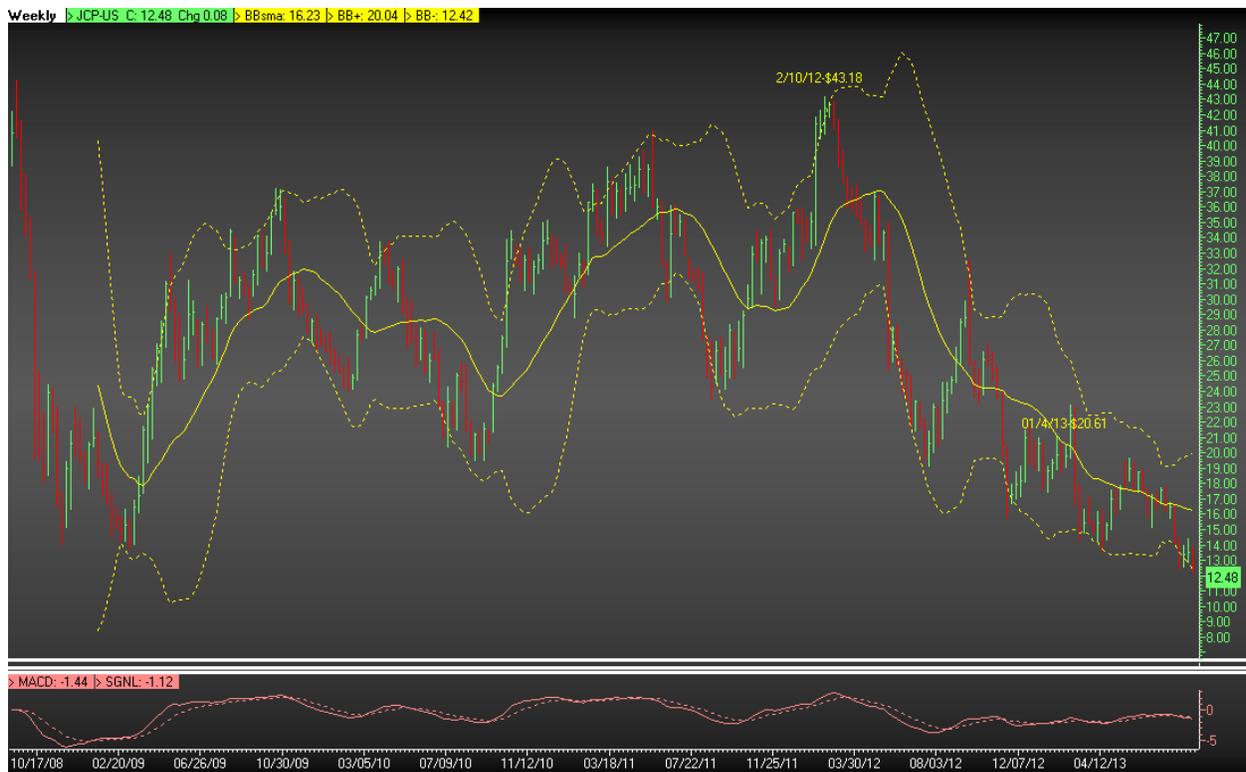
- US Durable Goods Orders Plunge 7.3% in July. Durable goods are considered to be items that are meant to last at least three years. Demand for items ranging from aircraft, computers and defense equipment fell to their biggest drop in nearly a year in July and a gauge on planned business spending on capital goods also tumbled.

This report added to other data for July on industrial production, housing starts and new home sales that have suggested economic growth during the current quarter will not be as robust as economists had expected.

Tuesday, August 27th

- Pershing Square Capital, the hedge fund run by Bill Ackman has sold its entire stake of 39.1 million shares, which is 18%, in retailer JC Penney. This is 35% below the price Mr. Ackman paid for the stock three years ago. This marks the end of the activist fund manager's campaign to breathe new life into the ailing retailer. During his three year ownership he recruited a new chief executive, Ron Johnson from Apple to upgrade merchandise and make stores more attractive to shoppers. However, in the past year, sales have fallen 25% and the share price has dropped by 32% since January.

### JC Penney, Weekly chart - Closing price Friday August 30th, 2013 - \$12.48



- US consumer confidence in August rose to 81.5 from an upwardly revised 81 in July, which beat economist's expectations of 79.

Lynn Franco, Director of Economic Indicators, said "Consumer confidence increased slightly in August, a result of improving short-term expectations. Consumers were moderately more upbeat about business, job and earning prospects."

"In fact, income expectations, which had declined sharply earlier this year with the payroll tax hike, have rebounded to their highest level in two and a half years."

- German business sentiment rose to its highest level in 16 months. The Ifo think tank said that its business climate index rose from 106.2 in July to 107.5 in August. This is the fourth consecutive rise and the highest level since April 2012.

Ifo economist Kai Carstensen said, "The German economy moved up a gear. Companies are more satisfied with their current business situation. Their optimism regarding future business developments, although slightly cautious, also grew."

- Angela Merkel, the German chancellor, told around 1,000 supporters of her Christian Democratic Union party in Rendsburg that "Greece shouldn't have been allowed into the euro."

"Chancellor Schroeder (the former chancellor) accepted Greece in (2001) and weakened the Stability Pact, and both decisions were fundamentally wrong, and one of the starting points for our current troubles."

Ms. Merkel confirmed her wish to see a strong single currency, but said that this can only be achieved through reforms in struggling countries such as Greece.

- In a story in The Telegraph newspaper, Ambrose Evans-Pritchard revealed that the Saudis have offered Russia a secret deal if it drops Syria.

Apparently, Saudi Prince Bandar bin Sultan met with Mr. Putin at his dacha outside Moscow. In leaked documents the Prince offered inducements and threats to bring Russia on side with the West over Syria. "Let us examine how to put together a unified Russian—Saudi strategy on the subject of oil. The aim is to agree on the price of oil and production quantities that keep the price stable in global markets."

"We understand Russia's great interest in the oil and gas in the Mediterranean from Israel to Cyprus. And we understand the importance of the Russian gas pipeline to Europe. We are not interested in competing with that. We can cooperate in this area."

The Prince pledged to safeguard Russia's naval base in Syria if the Assad regime collapses, but he threatened if there was no accord that the Chechen terrorists could be highly disruptive to the Russian Winter Olympics to be held in Sochi next year. "I can give you a guarantee to protect the Winter Olympics next year. The Chechen groups that threaten the security of the games are controlled by us."

According to the informant the Putin-Bandar meeting was stormy, "replete with warnings of a 'dramatic turn' in Syria. Mr. Putin was unmoved by the Saudi offer. "Our stance on Assad will never change. We believe that the Syrian regime is the best speaker on behalf of the Syrian people, and not those 'liver eaters' he said, referring to footage showing a Jihadist rebel eating the heart and liver of a Syrian soldier."

Wednesday, August 28th

- **Headline, The Telegraph - "Emerging Market Rout Is Too Big for The Fed to Ignore. The US Federal Reserve has told Asia, Latin America, Africa and Eastern Europe to drop dead."** By Ambrose Evans-Pritchard.

Emerging markets are now big enough to drag down the global economy. In the early 1980s these markets accounted for 15% of global GDP. By the mid-1990s they had grown to a third of global GDP and big enough to "rock the boat, as Fed Chair Alan Greenspan discovered after Russia's default in August 1998."

"Mr. Greenspan became worried enough to canvas Fed governors on the need for a response at the Jackson Hole conclave that month. The Fed cut rates in September, but it was not enough to stop the crisis spinning out of control as currencies crashed across East Asia, and the pre-EMU 'convergence play' in Europe reversed violently."

"If the stakes were high then, they are higher now. Emerging markets are half the world economy, according to IMF data. The 'power ratio' is no longer 1:2, it is 1:1."

"The Fed has a duty of care to emerging markets, since its own hands are hardly clean. Zero rates and quantitative easing were the cause of dollar liquidity flooding these countries. It was the biggest reason why net capital flows into emerging markets doubled from \$4 trillion to \$8 trillion after 2008, much of it wasted in a late cycle blow-off."

"Yes, China, Brazil, India and others handled the liquidity bath badly. They ramped up credit without generating much worthwhile growth. In China's case the economic return on loan growth has collapsed from a ratio of 0.85 to 0.17. The diminishing returns have sunk to almost nothing."

"The exodus of money from emerging markets that we have seen so far is nothing compared with what could happen if this episode is mishandled. The rapid escalation towards a Western missile strike on Syria is bringing matters to a head fast, with talk of a spike in crude oil price to \$150 a barrel setting of its own chain reaction."

"If the Fed really thinks that the rest of the world will have to 'adjust to us' as it insists on draining global liquidity come what may, it may have a very rude surprise, yet again."

- **Mish's Global Economic Trend Analysis - "Mortgages Plunge 42% from a year ago in Spain, 38th Consecutive Drop; Signs of Recovery? Spain Need Another Bailout?"**

"Prime Minister Rajoy wants you to believe that the Spanish economy is improving. One look at housing suggests any improvement is an illusion."

"Here are some highlights from a translation of the La Vanguardia article - 'Mortgages plummet 42.2% in June.'"

1. The number of mortgages for home purchases in June fell 42.2% in June compared to June 2012.
2. Mortgages declined every month for 38 months. June signed just 14,053 home mortgages. The lowest monthly figure of the last ten years.
3. The six-month total from January to June 2013 was 115,895 signed mortgages. That is less than the one month total for May 2007, which had 118,669 signed mortgages.
4. The average value of mortgages dropped down 9% from a year ago to €97,495.
5. This was the worst half-year since the data series for this indicator began in 2003.

- Gabriel Resources (GBU/T) announced that the Company and the Romanian Government had reached an agreement for the development of the Rosa Montana project in Romania. The Government has enacted a stiff price for this agreement; without any cost to the government, it will own 25% of the project, with Gabriel owning 75%. In addition the Romanian government will receive 6% of revenues from the project, which may at the government's discretion be payable in gold.

This agreement has been revised several times over many years. Jonathan Henry, Gabriel's CEO stated, "The Romanian Government's decision to approve a law specific to the Rosa Montana Project represents a significant milestone for all stakeholders. We are extremely encouraged by this major step towards progression of the permitting process and consider it to be a clear sign of endorsement by the Government for investment into Romania. A Parliamentary adoption of the proposed law will enable Gabriel to build Romania's first modern mine, creating direct and indirect employment, and providing significant cultural, environmental and economic benefits. We remain fully committed to constructing what will be Europe's largest gold mine."

#### Thursday, August 29th

- Josef Ackermann has resigned as chairman of Zurich Insurance over the apparent suicide of the company's chief financial officer Pierre Wauthier earlier this week. Mr. Wauthier's wife has blamed the hard driving Mr. Ackermann for her husband's death.

In a statement issued today, Mr. Ackermann said, "The unexpected death of Pierre Wauthier has deeply shocked me. I have reasons to believe that the family is of the opinion that I should take my share of responsibility, as unfounded as any allegations might be."

"As a consequence, I see the possibility of a continued successful Board leadership to the benefit of Zurich called into question. To avoid any damage to Zurich's reputation, I have decided to resign from all my Board functions with immediate effect."

- US GDP grew by 2.5% in the 2nd quarter far surpassing the original government estimate of 1.7% and the economists' predictions of 2.2% growth. Exports climbed during the second period at their fastest pace in more than two years. The growth was somewhat slowed by reduced spending at all government levels.

John Williams in his [Shadow Government Statistics](#), writes "**GDP Annual Growth at Levels that Historically Have Preceded Recessions.**"

"Despite the upside revision to second-quarter GDP, and despite the perpetual sunshine that the government would like to see radiating from its reports of broad economic activity, the year-to-year growth in quarterly GDP has fallen below levels have been seen historically only when the economy is headed into recession. Similar patterns also have been evident in economic series such as industrial production and real retail sales. Again, the key pattern here is where annual growth slows to below key levels of economic activity and momentum."

#### Friday, August 30th

- The Telegraph newspaper reports that - "**BP's Public Grievances Over Its Escalating Bill for Compensating Those Affected by the 2010 Deepwater Horizon Oil Spill in the Gulf of Mexico Have Just Boiled Over.**"

Geoff Morrell, a senior BP executive 'broke with the company's normally restrained statements of disgruntlement over the rising bill fired this shot at the Louisiana governor and his top coastal official:'

"Their political grandstanding contains patently false assertions, defies the demonstrated record of environmental recovery that has occurred across the Gulf, and defames the massive efforts by tens of thousands of people to foster prompt recovery and restoration."

“And here’s what they fired back:”

“BP is not a victim of this disaster. No matter what they say or do, the families of the deceased and the citizens of the Gulf are the victims and we are going to fight to hold BP accountable for their actions. BP’s campaign to portray themselves as the victim is shameful.”

“For BP executives to try to call our concerns ‘grandstanding’ is laughable.” Graves said. “They caused the worst oil spill in our nation’s history and are doing the worst cleanup in our nation’s history and we should sit idle and let them continue.”

That’s not a good fight to pick, BP!



Photo: The Telegraph

- The Portuguese Prime Minister, Pedro Passos Coelho responded to the Constitutional Court blocking of a bill that would have allowed the state to fire public sector workers, saying “We need to further reduce our spending...so that the Portuguese have a sustainable state. We have faced lots of difficulties to cut our spending, but I want to guarantee that we will manage to overcome them.”
- Unemployment in the eurozone in July came in at 12.1%, which is unchanged from the previous three months.
- Chinese gold imports through Hong Kong more than doubled in the first half of 2013 to \$93 metric tons, up roughly 239 tons over the same period in 2012.

Total gold consumption in China jumped by 54% to 706.36 metric tons in the first six months of 2013.

Chinese gold companies are aggressively buying foreign gold companies. So far this year, they have spent \$2.24 billion which is up considerably from 2012’s record of \$1.96 billion.

The World Gold Council estimates that Chinese consumer demand may top 900 tons this year, easily surpassing the previous record year of 778.6 tons in 2011.

Premiums paid by Chinese jewelers for physical gold have increased fourfold—up 45% so far in 2013.

Volume on the Shanghai Gold Exchange have been enormous and set consecutive records of 30.4 metric tons on the 19th of July and 43.3 metric tons on the 22nd. The previous record was 22.0 tons on February 18 of this year.

This speaks nothing of the Chinese government's huge gold purchases.

Gold in vast quantities is moving from west to east.

	CLOSING LEVELS FOR FRIDAY, August 30th	WEEKLY CHANGE
<b>Dow Jones Industrial Average</b>	14,810.31	– 200.20 points
<b>Spot Gold Bullion</b>	\$1,392.61 (U.S.)	– \$3.83 per oz.
<b>S&amp;P / TSX Composite</b>	12,653.90	– 104.80 points
<b>10 - Year U.S. Treasury Yield</b>	2.826%	+ 0.004 %
<b>Canadian Dollar</b>	94.81 cents (U.S.)	– 0.48 cents
<b>U.S. Dollar Index Future</b>	82.295	+ .93 cent
<b>WTI Crude Oil (September)</b>	\$106.98 (U.S.)	+ \$0.56 per barrel

Ian A. Gordon, The Long Wave Analyst [www.longwavegroup.com](http://www.longwavegroup.com)

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**“Those who cannot remember the past are condemned to repeat it.” Santayana**