

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE
THAT WAS THE WEEK THAT WAS



Monday, August 19th
Japan's Trade deficit doubles
in July.

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The July deficit of 1.024 trillion yen was much higher than the 773.5 billion yen that was expected and almost double the 5.28 billion yen reported in July 2012.

Exports jumped 12.2% in July, but imports grew even more strongly driven by a surge in petroleum and LNG imports, which increased 30.2% and 17% respectively.

Japan's energy import bills have soared since the government closed most of the country's nuclear reactors following the Fukushima disaster in March 2011.

July's deficit is the 13th straight month of trade shortfalls in what is now the longest spell in more than thirty years.

Also, Japan's public debt surpassed 1 quadrillion yen (\$10.5 US trillion) this month.

- Headline, Mineweb.com - **"Gold Smugglers Run Riot in India."** Gold smuggling has again flared up in India, with authorities seizing gold worth \$9 million in just three months, in a catch that is close to the entire haul for last year.
- Also in Mineweb.com - **"A Few Billion Here, a Few Billion There, Impairment Everywhere."** By Kip Keen

"They were punishing: Multi-billion dollar losses for gold miners following gold's fall from over \$1,600 in January to under \$1,300 in June (\$1,181.00 on June 28th, 2013). Operating margins were squeezed, to be sure, but it was impairment charges that cut most in terms of sheer dollar value of losses. One after another, gold miners, majors among them, reported massive, non-cash losses related to changing asset values driven by gold's decline in their latest financial reports."

"Impairment charges, as they are called, dominated subsequent headlines. To tally a few of the largest; Newcrest - \$5.6 billion; Barrick Gold - \$8.7 billion; Kinross - \$2.3 billion; Goldcorp - \$1.9 billion; and Newmont - \$2 billion. The explanation for the losses was a variation on the same theme. They were losses 'largely due to short-term and long-term gold price assumptions,' as Kinross put it. The wording was much the same across the gold herd."

Tuesday, August 20th

- Mineweb.com - **“UK Gold Exports to Switzerland Surged in H1”** - McQuarrie. “The UK exported 240 tonnes to Switzerland in May alone, while its exports over the first half of the year totalled 797 tonnes, says McQuarrie.”

Last year Britain only exported a total of 92 tonnes of bullion to Switzerland.

Mcquarrie thinks the source of all that bullion is gold exchange-traded funds ETFs, most of which hold their gold holdings in London vaults. Mcquarrie believes two explanations make sense as to why so much is going to Switzerland. “One would be that investors have decided to move their gold investments from ETFs to allocated deposit accounts, which are often held in Switzerland.”

“But a bigger factor we think (Mcquarrie) is that gold bars from ETFs have gone to Switzerland, where most of the world’s gold refining capacity is, to be remelted into different size bars and coins and then sold on to consumers, predominantly in Asia, specifically China and India.”

“Gold ETFs—popular investment vehicles which issue securities backed by physical gold—posted their biggest outflows of metal on record in the second quarter. Data from the World Gold Council showed outflows of 402.2 tonnes of bullion between April and June.”

“Holders of the largest gold ETF, New York’s SPDR Gold Shares, are held in allocated 400 ounce bars in the London vaults of HSBC, according to the fund’s website.”

- Wolfgang Schaeuble, the German finance minister has admitted that Greece will need a third bailout. His admission comes as a surprise, coming as it has, just weeks before German national elections.

Shortly before Mr. Schaeuble made his comments, German Chancellor, Angela Merkel was quoted in a local newspaper dismissing any questions regarding further aid to Greece saying that there was no point in discussing the matter until Greece’s second package expires at the end of next year. Got to get the German election over, before Ms. Merkel can talk about giving Greece more money, she doesn’t want to upset the German taxpayers.

- Glencore Xstrata, the newly combined resource giant, has written off \$7.7 billion, which has brought into question the merits of the world’s largest mining deal.

Glencore effectively paid \$44 billion for Xstrata with the deal closing on May 3rd, 2013 and the value of that deal is now only \$37 billion.

Will Ivan Glassenberg, the group’s chief executive, be fired? No, of course not. After all he says “he’s still happy with the deal” and of course he sees the value of the writedown being recouped in the future. We shall see.

- Headline, The Globe and Mail - **“The Euro Zone Debt Crisis Is Anything but Over.”** Story by Eric Reguly, one of our favourite Globe and Mail writers.

“What has austerity wrought? We know it has sent the jobless rate soaring in the hardest hit European countries, triggered the downfall of more than a few governments and deepened recessions, all in the name of trimming budget deficits, which were indeed trimmed.”

“What is hasn’t done is crunch sovereign debt levels; in fact the opposite is happening. In the 17 country euro zone, the ratio of debt to gross domestic product was about 70% in 2007, the year before the financial crisis. Today it’s about 90%—and climbing—in spite of savage reductions in public spending. We remind you that the Maastricht Treaty calls for a debt-to-GDP ratio of no more than 60%.”

If sovereign debt loads were unsustainable a few years ago, they are even less sustainable now. No wonder debt loads are not improving. Last week, DBRS slapped a CCC rating—rotting, smelly junk to you and me—on Greece with

a 'negative trend', meaning the danger of default is rising. The trend line is the same in Italy, Spain and Portugal; that is more downgrades are likely even though the euro zone is now officially out of recession."

"You can be forgiven for thinking that the worst of the debt crisis is over. In the last year, 10-year bond yields—the cost of long term borrowing—in Italy and Spain have fallen by 1.5 and 2 percentage points, respectively. Portugal's is down 3.4 percentage points and Greece's is down a formidable 14.7 percentage points. That's the good news. The bad news is that the yields are still atrociously high compared to benchmark German bond yields. Italy is paying 4.2 per cent to flog 10-year paper; Germany can sell the equivalent for mere 1.9 per cent. Spain has to pay almost 4.4 per cent. The high yields, of course, translate into painfully high financing costs for corporations."

"The even worse news is that falling yields in Italy, Greece, Spain and Portugal have almost nothing to do with sound fiscal performance and almost everything to do with the European Central Bank. A year ago, ECB boss Mario Draghi promised to do 'whatever it takes' to keep the euro zone intact. His commitment translated into a plan, not yet used, to buy the sovereign bonds of countries that have trouble financing themselves."

"The mere existence of the program, known as Outright Monetary Transaction, has been enough to hammer down bond yields. Without OMT, there is a good chance Italy and Spain would be teetering on the fiscal cliff. If either one of them were to be shut out of the bond markets—as Greece, Ireland and Portugal were—the eurozone would break apart. There is simply not enough financial firepower in the system to save either, let alone both. The permanent rescue fund (the European Stability Mechanism) has access to €500-billion. Italy's debt alone is more than €2 trillion."

"The debt-to-GDP ratios are unsustainable in some cases and approaching unsustainability in others. Greece's debt is expected to reach a ridiculous 176 per cent of GDP this year, even though its public debt was whittled down in 2011, when private holders of Greek sovereign debt (mostly banks) were frog-marched into the barbershop and given a 'haircut.' Italy's ratio is almost 130 per cent and rising. With Italy's growth firmly in negative territory, the ratio will get worse as the denominator shrinks. 'These economies are just not growing fast enough,' says Fergus McCormick, DBRS's head of sovereign ratings."

"So ignore the blathering that the debt crisis is over because bond yields are no longer at crisis levels. Debt is rising almost everywhere in the eurozone, and growth, where it exists, is anemic."

Wednesday, August 21st

- **Headline, Wall Street Journal - "Wall St. Retreats from Resources."**

"Aluminum deliveries into warehouses run by big banks and trading firms have plunged this summer, highlighting Wall Street's retreat from the once lucrative commodities business amid stagnant markets, new rules and regulatory scrutiny."

"Industrial aluminum users such as Coca-Cola Co. and aluminum sheet maker, Novelis Inc. have complained to the London Metal Exchange that warehouses had artificially slowed the release of aluminum, limiting supply and driving up prices. A MillerCoors LLC executive testified in a Senate banking committee hearing last month that the practices were inflating consumer prices by billions of dollars."

The Commodity Futures Trading Commission last week subpoenaed a number of warehousing operators, and the Justice Department launched a probe into the matter last month, people familiar with the probes said. Separately the Federal Reserve is examining whether banks should be allowed to own physical commodities assets such as pipelines, warehouses and power plants. Lawmakers also questioned the role of banks in the physical raw materials business. Goldman Sachs and Metro have been targeted in at least four federal lawsuits in recent weeks alleging abusive practices. The firm has denied wrongdoing." Uh!

- **Headline, The Telegraph - "Recovery Failing to Help Deficit Reduction."** "Britain's economic recovery is failing to help public finances as government spending continues to rise, official figures show."

In July the British government added another £500 million to its borrowing, which was significantly worse than the expected £2.9bn surplus.

For the first four months of the financial year the British government has borrowed £36.8bn, which is £1.6bn more than last year.

National debt as a proportion to GDP was 74.5% in July.

- Headline, The Telegraph - “**Jens Weidmann Slams ‘Reckless’ Talk of Euro Break-up as Greece Bail-out Talk Intensifies.**” “A break-up of the eurozone would have ‘grave consequences’, the head of Germany’s central bank has warned, while talk of a third bail-out for Greece has intensified.”



Jens Weidmann, Germany’s central bank chief. Photo: Reuters

- Members of the Federal Reserve are cautious about moving to scale back quantitative easing, although they are generally comfortable with the idea that tapering should start later this year.
- From Mish’s Global Trend Analysis - “**Panic Flip-Flop Moves by India Central Bank Fail to Halt Currency Plunge.**” “The India Rupee fell to fresh record lows today in spite of panic moves by the Reserve Bank of India.”

The Financial Times reported, “India gripped by a mood of crisis as rupee falls again.”

“India is in a world of hurt. It wants to maintain 6% growth, rein in inflation, stop capital flight, and stop the plunge in the Rupee. That combination is impossible.” Mish Shedlock.



- Headline, The Telegraph - **“North Sea Faces Record Fall in Oil and Gas Production.”** “ North Sea oil and gas production could decline by as much as 22% this year--the biggest annual slump on record—as maintenance on aging infrastructure hits operations, the industry body has warned.”

“Oil and Gas UK said it now expected average output to fall to between 1.2m and 1.4m barrels of oil and and gas per day (boepd) this year, down from 1.54 boepd in 2012.” “In 2003, production stood at almost 4m boepd, but has fallen every year since then.”

This decline in production leaves Britain even more dependent on imported oil and gas and is one of the reasons that government officials are so keen to encourage the discovery of onshore oil and gas, including shale gas.

What does this mean for Scottish independence?



Photo: Alamy

Thursday, August 22nd

- Jeroen Dijsselbloem, the Dutch finance minister, who leads the Eurogroup meetings of finance ministers, has conceded that Greece will need a third bail-out. Dijsselbloem told the Dutch Newspaper, Het Financieele Dagblad, “The problems in Greece won’t be solved in 2014, so something will have to happen.”

Olli Rehn, the European Commissioner for Economic and Monetary Affairs, also said that he did not rule out a third bail-out for Greece.

Greece has already received €240bn in two separate bailouts.

The IMF estimates Greece will have a €9bn funding shortfall by 2015. Many European politicians, including Angela Merkel, the German Chancellor, refuse to discuss a politically unpopular bailout ahead of September’s German elections.

- Story published on Infowars.com., written by Mac Slavo

“Presidential Meeting Signals Catastrophic Event.”

“If there’s one thing we know about how the US government operates, its that the American people are often the last to know about serious problems that may be taking place behind the scenes.”



Photo: Wikimedia Commons

“This week, in a move that has spooked a lot of economic and financial analysts, President Barack Obama held a special, closed door meeting with members of the U. S. government’s financial, monetary and oversight agencies. It included members of the Federal Reserve, the FDIC, the CFTC, the SEC, and the Federal Housing Agency.”

This has left many wondering what is really going on—and if a serious event is about to take place yet again.

“I guess I’m always unnerved as a result of what happened in April, the last time the President of the United States had a meeting with all the bank heads, and two days later the price of gold was smashed for over \$200.”

“Now the President is meeting with all the heads of the various agencies, institutions, the Fed, and all the other key money entities of the United States today. What’s that all about?”

“But clearly if the President is having this meeting there is a crisis unfolding somewhere in the background, and it could very well relate to the dollar, interest rates, the massive derivatives market associated with interest rates.”

This surge in interest rates may have already seriously destabilized the entire financial system, and that’s why there is this meeting taking place in the White House today. The fact is that the vast majority of derivatives in the global financial system are related to interest rates.”

“Now the entire financial system may be on the **precipice of some sort of catastrophic event unfolding** because of what we have already seen in the bond market, and how the derivatives are so heavily intertwined. Meaning, we may be on the verge of another disastrous derivatives meltdown.” John Embry-King World News via Steve Quayle.

“Ahead of the 2008 collapse, as the pillars of our financial system were undergoing a controlled detonation, the Chairman of the Federal Reserve assured us the crisis had been contained. Experts and pundits on television were screaming to investors that everything was fine and to keep buying the dips.”

“Behind the scenes, however, President Bush, the Federal Reserve, and the world’s leading financial institutions were scrambling to figure out how to keep the whole thing from falling apart. As former US Treasury Secretary Hank Paulson noted, we were on the brink of an historic collapse, and they knew it well ahead of time.”

“The American people were not as fortunate. Most of us came to the realization things had taken a turn for the worse only after 50% of our wealth had been wiped out in a stock market and housing crash.”

“Today, like before, all of the experts in Washington and the mainstream media are making a point to reassure us that we are in the midst of an economic recovery. However, key economic indicators suggest otherwise. We are seeing a plunge in global shipping, a halt in consumer spending and perhaps most importantly, a significant rise in interest rates and the US government’s borrowing costs.”

“Now, as the President meets with a veritable who’s who of government finance, lending and monetary policy one can’t help but think something is amiss.”

“Are we on the brink of another global disaster?”

- **Headline, Financial Times - “Japan Nuclear Watchdog Raises Concerns Over Radioactive Leak.”**

“Shares in Tokyo Electric Power fell as much as 15% yesterday as Japan’s nuclear watchdog raised concerns over a huge leakage of contaminated water at the company’s stricken Fukushima Daiichi plant.”

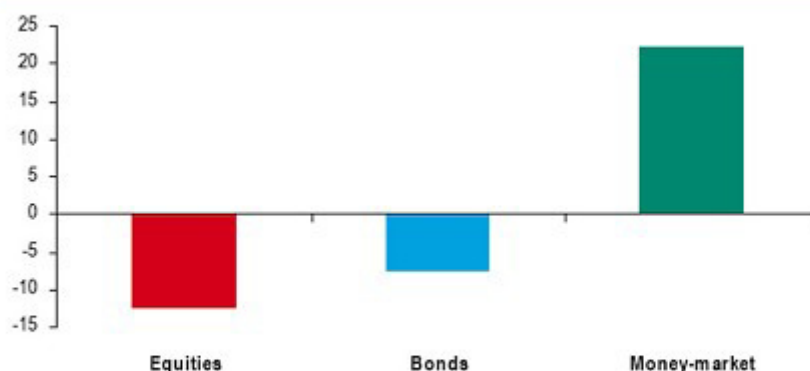
The implications of the Fukushima disaster are horrendous especially to those of us living on the west coast of North America. Are our governments concealing the truth?

<http://www.zerohedge.com/contributed/2013-08-21/west-coast-north-america-be-hit-hard-fukushima-radiation>

Friday, August 23rd

- According to Bank of America Merrill Lynch, cash poured out of US equity funds during this week at the fastest rate in five years. Bond funds, too, experienced massive outflows. Bank of America Merrill Lynch chief strategist says “It is a flight to cash as retailers dump risk assets.”. On the other hand, European funds are continuing to experience large inflows.

Chart 1: Weekly flows show outflows from Equities & Bonds into Cash



Source: BoFA Merrill Lynch Global Investment Strategy, EPFR Global

- The Financial Times reports **“Junk in the Vanguard of Move Away from Banks.”** “European high-yield issuance has hit a record level.”

“With new capital and liquidity charges resulting from re-regulation of the industry, banks are pulling back on credit lines, especially in the high yield space,” says Jim Esposito, head of European financing group at Goldman Sachs.”

“Fortunately the capital markets have filled this void.”

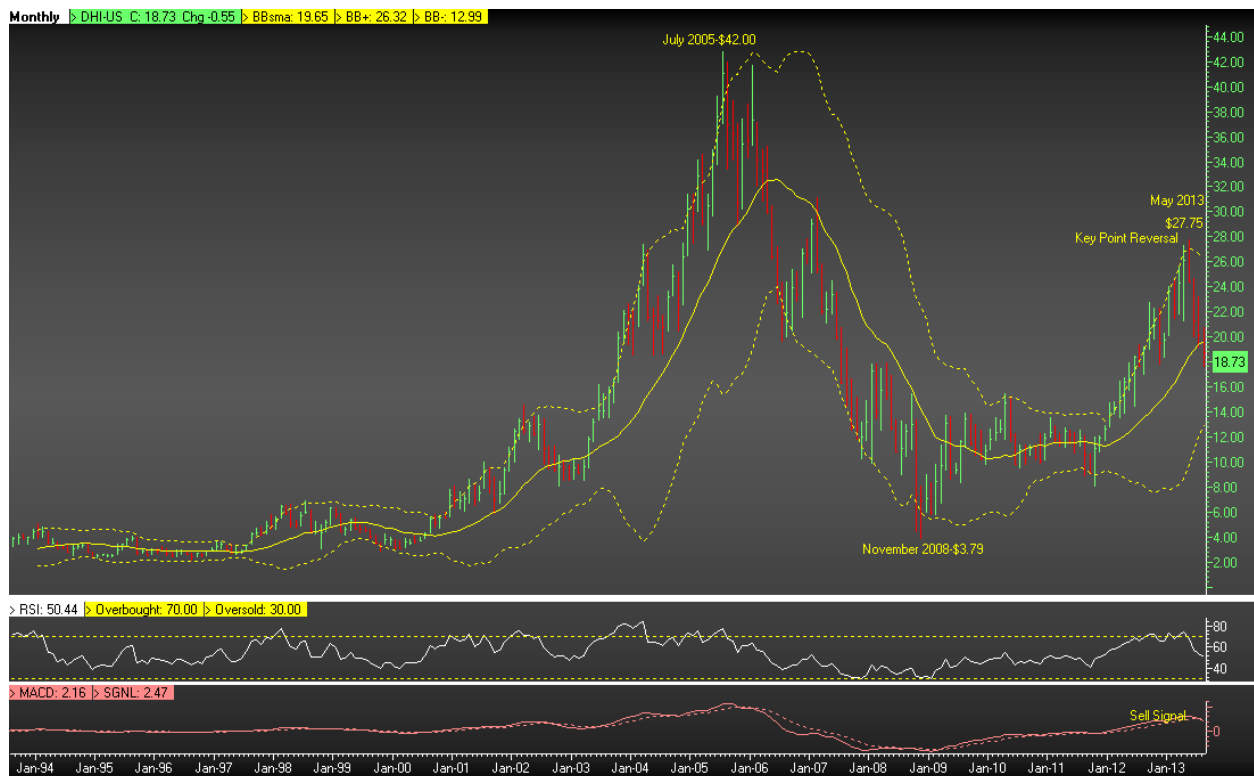
“Since the nadir of \$1.1bn at the height of the financial crisis in 2008, European high yield issuance has grown year on year. Year to date issuance in all currencies stands at a record \$74.2bn, according to figures from Dealogic, a \$300m jump on the 2012 total.”

Our response, “when you throw caution to the wind, you are likely to be blown over.”

- Sales of new U. S. homes plunged in July by the most in more than three years and previous months going back to April were revised down. Sales of newly built homes declined 13.4% to a 394,000 annualized pace. This was the biggest decline since May 2010.

This slump in new home sales is at odds with growing builder confidence, that’s at the highest level since November 2005. Looking at this chart of D. R. Horton, America’s largest homebuilder, we would have to say that such builder confidence is very much misplaced; indeed this chart shows that D. R. Horton may not survive this renewed housing downturn.

D. R. Horton, Monthly Chart - Closing price Friday 23rd August 2013 - \$18.73, down 32.5% from May 2013.



- The Telegraph - **“Emerging Market Rout Threatens Wider Global Economy.”** “The \$9 trillion accumulation of foreign bonds by the rising powers of Asia, Latin America and the emerging world risks going into reverse as one country after another is forced to liquidate holdings to shore up its currency threatening to inflict a credit shock to the global economy.” By Ambrose Evans-Pritchard.

This past Thursday, August 22nd, 2013, both the Indian Rupee and Turkey’s Lira crashed to new lows, as the Federal Reserve signalled an end to Quantitative Easing.

The Brazilian real hit a 5 year low against the dollar. So far the country has employed futures contracts to defend the real, which disguises the erosion of Brazil’s \$374bn of reserves. “‘They are moving currency intervention off balance sheet, but the net position is deteriorating all the time,’ said Danske Bank’s Lars Christensen.”

“A string of countries have been burning foreign reserves to defend exchange rates, with holdings down 8% in Ecuador, 6% in Kazakhstan and Kuwait, and 5.5% in Indonesia in July alone. Turkey’s reserves have dropped 15% this year.”

“Fears of Fed tightening have pushed borrowing costs worldwide to levels that could threaten global recovery. Yields on 10-year bonds jumped 47 basis points to 12.29pc in Brazil on Thursday, 33 points to 9.72pc in Turkey, and 12 points to 8.4pc in South Africa.”

China and other countries that have built up large reserves are now reversing the process. China sold \$20bn of US treasuries in June. This could have a dire impact on equity and property markets. 10-year US yields have risen to 2.8%. from 1.6% in early May.

India is caught between declining economic growth and currency depreciation. According to Nicholas Spiro a sovereign bond strategist, “India is playing with fire by reversing its tightening measures to fend off recession. It has instead set off a full-blown currency crisis that is crippling for companies with dollar debts.”

“India is not alone. A string of countries across the world are grappling with variants of the same problem, forced to pick their poison.”

	CLOSING LEVELS FOR FRIDAY, August 23rd	WEEKLY CHANGE
Dow Jones Industrial Average	15,010.51	– 70.96 points
Spot Gold Bullion (December)	\$1,396.44 (U.S.)	+ \$20.54 per oz.
S&P / TSX Composite	12,762.30	+ 25.38 points
10 - Year U.S. Treasury Yield	2.823%	– 0.006 %
Canadian Dollar	95.29 cents (U.S.)	+ 1.46 cents
U.S. Dollar Index Future (Spot Price)	81.365	+ .08 cent
WTI Crude Oil (September)	\$106.42 (U.S.)	– \$0.87 per barrel

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