Monday February 18, 2013

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, February 18th

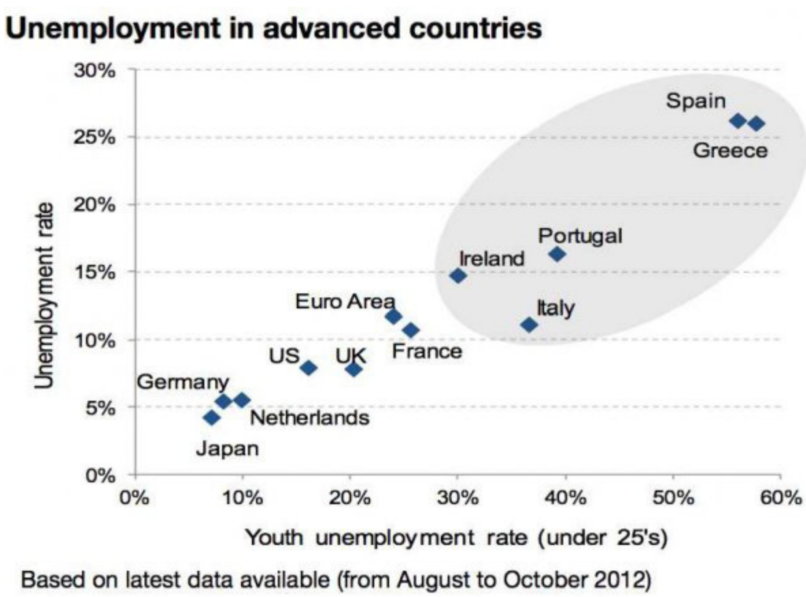
Front Page Headline, Daily Telegraph U.K. – **"Europe Not Yet Out of the Woods**

Monday, February 18th President's Day Holiday in the U.S.

As reported last week, the economy of the 17-nation European Monetary Union (EMU) contracted by 0.6% over the 4th. quarter of 2012, a much worse result than expected and the third consecutive quarter of real gross domestic product (GDP) decline. The worst performers were the Portuguese, Italian and Spanish economies, which shrank by 1.8%, 0.9% and 0.7% respectively, compared with the previous three months. Moreover, 'core' members also detracted from the EMU's performance, with national income falling in France, Austria and Holland. Even Germany, the region's economic powerhouse, performed poorly, losing a shocking 0.6% of GDP between October and December. Germany's official statistical agency noted that the GDP contraction was caused by reduced investment in plant and machinery, as businesses continued to worry about the impact of the region's ongoing sovereign debt crisis on broader demand.

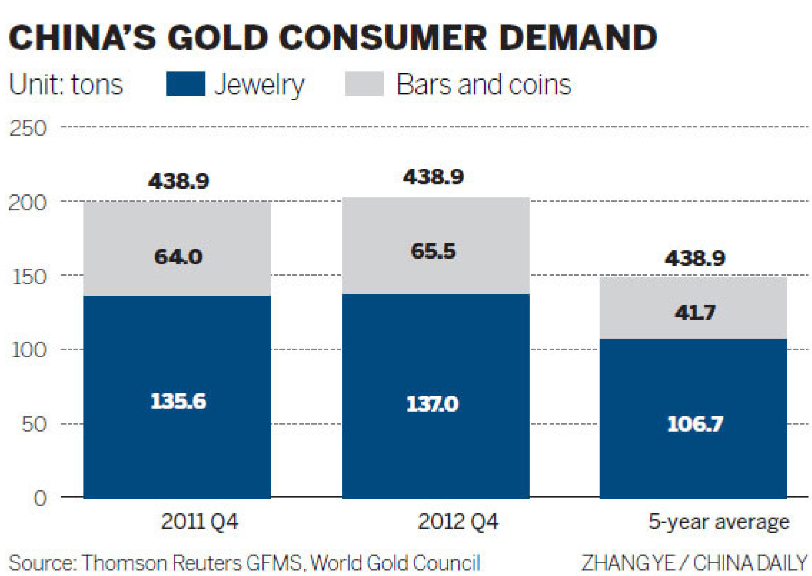
Indeed, there appears to be a growing realization of the long-term structural challenges faced by many euro zone members, not only the periphery (states), but also the larger economies. Eurozone exports have been trending downward since the middle of last year. What drove the 2012 surplus wasn't export strength, but the fact that the region's imports declined even faster. So, the euro zone's eye-catching annual trade surplus is actually an illustration of the weakness in domestic demand ... The longer the region fails to grow, the worse its fiscal balances will be and the higher the chances of a bond market rebellion. More fundamentally, it remains the case that in the long run, it is simply impossible to maintain a fixed exchange rate among democratic countries with different social systems and different political traditions.

Last week, the U.K. House of Lords European Union Committee made a significant, but little-noticed intervention, writing a public letter to the U.K. Treasury 'warning against a growing complacency among EU leaders that the euro area crisis has been resolved. There seems to have been a significant backtracking of the June 2012 agreement of the European Council to break the tortuous financial links between sovereign states and banks. This runs the risk of a repeat of the 2008 financial crisis. Moreover, the deal with euro zone banking union (secured in December 2012) may not prove as watertight as the U.K. government believes. In addition, the European Central Bank's bond buying commitments may simply be masking the underlying difficulties facing many euro area countries. Ergo, we would warn the British government against viewing the euro area's woes as someone else's problem, because the implications for the U.K. are immense, not only economically, but also in terms of political ramifications."



Source: Business Insider

- The China Gold Association reports the nation's gold consumption amounted to 832.18 tonnes in 2012 – an increase of 9.35% from 2011 – as purchases of gold jewelry rose by 10.09% to 502.75 tonnes, while those of gold bars and gold coins increased by 12.22% and 21.63%, respectively, to 239.98 tonnes and 25.3 tonnes. China has been the world's biggest producer of gold since 2007, with an annual output of 403 tonnes in 2012, an increase of 11.7% over 2011. Industry analysts expect the country's demand for gold to outstrip supply by at least 550 metric tonnes by 2015. Li Yang, a Shanghai-based gold investment analyst noted: "Imports of gold from other countries will help fill the gap between gold demand and supply." According to the World Gold Council's annual report for 2012: "Looking ahead, the signs of economic improvement bode well for gold demand in China, although the indications are for a steady firming of demand, rather than for strong growth. This will remain the case while the gold price continues to hold within the broad sideways range of the last five to six months." According to a bulletin from China's Ministry of Industry and Information Technology: "The nation's gold producers will accelerate exploration and industry integration to create some major players in the market over the next few years." Yang Yijun, chief analyst with Wellxin.com, a precious metals consultancy, observed: "Gold exchange traded funds (ETFs), likely to be introduced this year, could further increase demand for gold reserves in China."



Tuesday, February 19th

- Front Page Headline, Bloomberg News – **“President Obama Pressures Congress for Agreement to Avert Sequester.** In a Washington press conference, U.S. President Barack Obama increased the pressure on Congress to avert a brutal automatic $1.2 trillion (U.S.) of sequester budget cuts set to take effect on March1st., declaring: ‘If the spending reductions materialize, America’s military readiness would be hampered, aid to state and local governments would be lessened and the ability of the government to respond to natural disasters or other emergencies would be diminished. These cuts are neither smart, nor fair and the will hurt our economy. They will add hundreds of thousands of Americans to the unemployment rolls. This is not an abstraction, people will lose their jobs. At the minimum, Congress should enact a temporary, smaller package which provides more time for negotiations.”

U.S. President Obama Photo: White House

- The Mannheim-based ZEW Center for European Economic Research reports its index of analyst and investor expectations – which aims to predict economic developments six months in advance – rose to a reading of 48.2 in February from a level of 31.5 in January, the highest reading since April 2010. Johannes Gareis, a euro zone economist at Natixis in Frankfurt, commented: “Despite the upbeat ZEW reading, we remain cautious with regard to Germany’s (economic) prospects, since there are many challenges to overcome in 2013. We still expect positive (GDP) growth out of Germany, albeit at a slower pace than in 2012.”

- The NAHB / Wells Fargo Housing Market Index edged down slightly to a reading of 46 in February from a level of 47 In January citing: “ongoing uncertainties about job growth and rising costs for building materials has slowed the solid gains recorded during 2012.” NAHB chief economist David Crowe elaborated: “The slight pause in early 2013 came as builders adjusted their expectations to reflect the pace at which consumers are moving forward on new home purchases. However, building is likely to continue on a modest rising trajectory this year.”

- Front Page Headline, New York Times – **“Chinese Army Unit Tied to Cyber Hacking Against U.S.** On the outskirts of Shanghai, in a neighbourhood dominated by a 12-storey white office tower, sits a People’s Liberation Army base for China’s growing corps of cyber warriors. An unusually detailed 60-page study released by Mandiant – an American computer security firm – tracks for the first time individual members of the most sophisticated of the Chinese espionage groups – known to many of its victims in the United States – as ‘Cement Crew’ or ‘Shanghai Group’ – to the doorstep of the military unit’s headquarters. In an interview, Kevin Mandia, the founder and CEO of Mandiant, elaborated: ‘Either the cyber-attacks are coming from inside unit 61398, or the people who operate the most-controlled, most-monitored Internet networks in the world are clueless about thousands of people generating attacks from this one neighbourhood.”

The 12-story Shanghai building housing PAL unit 61398. Source: N.Y. Times

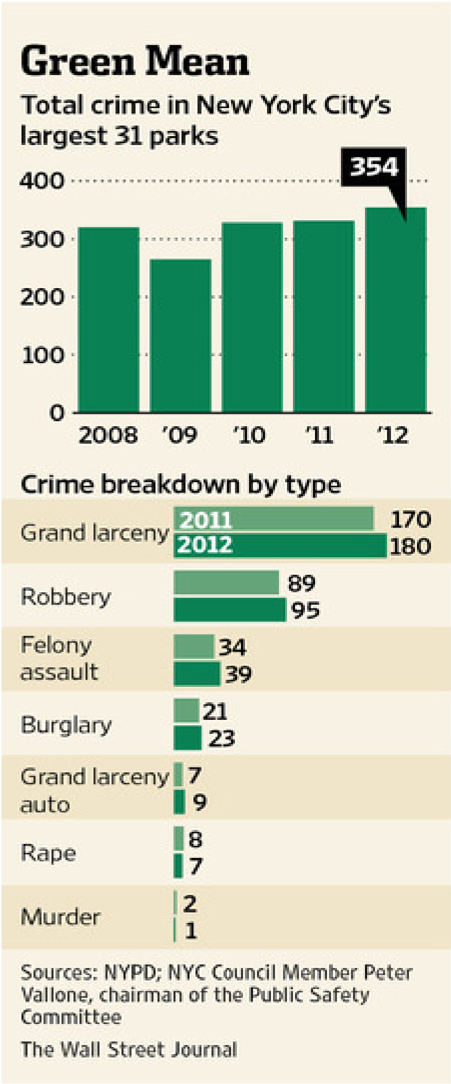
Wednesday, February 20th

- The Commerce Department reports U.S. single family housing starts rose by 0.8% to an annual pace of 613,000 units in January – up from 608,000 in December – while total housing starts declined to an annual rate of 890,000 units, restrained by a drop in the construction of multi-family units. However, building permits increased to a 925,000 annual rate, the most since June 2008. Gus Faucher, an economist at PNC Financial Services Group in Pittsburg commented: “The fact that single family starts are up is very encouraging. In terms of employment and (GDP) growth, it is more important to the economy than the multi-family area.”

- The Labor Department reports the U.S. producer price index (PPI) rose by 0.2% in January, following a decline of 0.3% in December, citing higher costs for food and pharmaceuticals. Christophe Barraud, an economist at Market Securities-Kyte Group in Paris noted: “Inflation should remain contained over the near-term. We don’t perceive an increase in demand emanating from the U.S. or Europe which would lead to much higher prices. Since the inflation rate is well below the U.S. Federal Reserve's target, that's why the Federal Open Market Committee (FOMC) is not worried today."

- Front Page Headline, Wall Street Journal – **"Political Rhetoric Turns Harsh as Sequester Budget Cuts Loom.** With the U.S. Congress in recess this week, Republican and Democratic leaders sent lawmakers home armed with fact sheets about the $85 billion (U.S.) in across-the-board federal spending cuts due to commence March 1st. and talking points on how to blame the other side. Meanwhile, the White House and lawmakers are making no progress towards forging a compromise to avoid the budget reductions, termed by Washington as the sequester. In response to yesterday's speech by President Obama, wherein he outlined the consequences to the nation's economy if Congress failed to reach a compromise agreement on the looming budget cuts, House Speaker John Boehner stated the Republican position in a Wall Street Journal op-ed: 'The sequester is a product of the President's own failed leadership. Replacing the President's sequester will require a plan to cut spending that will put us on the path to a balanced budget within 10 years. To keep these first responders on the job, what other spending is the President willing to cut? Today, both parties have a responsibility to find a bipartisan solution to the sequester. Turning it off and erasing its deficit reduction isn't an option.' The verbal jabs surfaced after deficit hawks Alan Simpson and Erskine Bowles proposed a deficit plan for rewriting the tax code and implementing deep spending cuts, hoping it would be a roadmap to compromise. Mr. Simpson, a former Senator representing Wyoming and Mr. Bowles, a Democrat and former chief of staff in the Clinton administration, proposed reducing the federal deficit by $2.4 trillion (U.S.) over 10 years, more than the $1.5 trillion (U.S.) package White House officials have stated was their goal. Mr. Bowles expounded: 'The $85 billion (U.S.) in spending cuts are absolutely stupid ... Among other things, the cuts would lead to three hour lineups at airport security checkpoints because security personnel would be furloughed."

- Front Page Headline, Wall Street Journal – **"Alarming Crime Rate Rise in N.Y. Parks.** According to statistics compiled by the New York City Police Department, the crime rate in the City's largest parks rose by 7% in 2012 compared with 2011; a trend that elected officials and advocates term troubling, as they urge Mayor Michael Bloomberg's administration to strengthen security. There were 354 major felonies in 31 of the city's largest parks last year – the highest level in five years – compared with 331 felonies in 2011. Major felony crimes citywide increased by more than 4% in 2012 compared with the previous year, breaking a 20-year plus trend of year-over-year crime reductions. City Council member Peter Vallone, Chairman of the Committee on Public Safety, described the crime rate increase as 'alarming. It's very significant because once crime begins to increase, it's much more difficult to regain control.' However, John McCarthy, a spokesman for Mayor Bloomberg noted: 'Crime in the City's largest parks continues to average less than one per day. The year-over-year increase in crime can be (mostly) attributed to three heavily used parks: Prospect, Crotona and Randall's."



- Front Page Headline, New York Times – **"FOMC Minutes Reveal Dissent on Policies to Improve Job Growth.** The minutes of the January meeting of the Federal Open Market Committee indicate widening divisions among officials over the value of its efforts to reduce unemployment. An increasingly outspoken minority are concerned that about $85 billion (U.S.) of monthly purchases of U.S. Treasurys and mortgage-backed securities are doing more harm than good. They argue this 'quantitative easing' policy may require termination prior to any potential improvement in the unemployment rate, because it is encouraging excessive risk-taking and could make it more difficult to control inflation."

Thursday, February 21st

- The Labor Department reports U.S. initial claims for state unemployment benefits rose by 20,000 to 362,000 in the week ended February 16th. while continuing claims increased by 11,000 to a seasonally adjusted 3.15 million in the week ended February 9th. Separately, the Labor Department reported the U.S. consumer price index (CPI) remained unchanged in January for the second consecutive month, as higher prices for housing, clothes and airline fares were offset by a seasonally adjusted decline in energy costs.

- The Federal Reserve Bank of Philadelphia reports its manufacturing index declined to a reading of minus 12.5 in February from a level of minus 5.8 in January. A negative reading for the index signals a contraction in manufacturing activity in Delaware, eastern Pennsylvania and southern New Jersey.

- The New York-based Conference Board reports its U.S. index of leading economic indicators – a gauge for the next three to six months – rose by 0.2% in January, following an increase of 0.5% in December

- The Washington-based National Association of Realtors reports U.S. existing home sales rose by 0.4% to an annual pace of 4.92 million units, following a decline of 1.2% to 4.9 million units in December

- Statistics Canada reports the nation's economy shed 21,900 jobs in January, while the unemployment rate declined slightly to an even 7% as many people decided against looking for work

- Front Page Headline, Daily Telegraph U.K. – **"France Freezes Spending to Meet EU Deficit Targets.** France is to freeze spending on defense, higher education and research in a frantic attempt to meet EU deficit targets this year, tightening fiscal policy further into a deep recession. The severity of the (economic) downturn has caught French officials by surprise. Markit Economics' survey data for French manufacturing and services declined to a reading of 42.3 in February, plunging at the fastest rate since the financial crisis in early 2009. Markit had warned that France might be slipping into a 'downward economic spiral' as sliding confidence caused businesses to delay spending. A key gauge of France's money supply – six-month real M1—has contracted faster than Italy or Spain over recent months, pointing to a grim (economic) outlook."

- Front Page Headline, Daily Telegraph U.K. – **"U.K. Manufacturers Register Slight Rebound in February.** The Confederation of British Industry's (CBI) industrial trends survey reports U.K. manufacturing activity rebounded to a reading of minus 14 in February from a level of minus 20 in January; where the reading represents the balance of positive and negative responses from 436 polled manufacturers. The balance was mainly boosted by stronger export orders, although the CBI noted that only 5% of business reported orders were considered above normal. Fewer manufacturers expected conditions to improve over the next three months. Output expectations declined to a reading of plus 5 from a level of plus 8 in January, with the positive sentiment mainly driven by the automotive, tobacco and food and drink sectors."

A factory welder plies his trade in a U.K. manufacturing plant.
Source: Daily Telegraph

- Front Page Headline, Daily Telegraph U.K. – **"German Chancellor Merkel Accused of 'Unholy Alliance' with Britain.** Speaking in the German Bundestag, Peter Steinbruck -- the Social Democratic Party's candidate for Chancellor in September's election – lambasted Ms. Merkel for supporting British Prime Minister Cameron's demands for a cut in the European Union (EU) budget. Mr. Steinbruck exclaimed: 'You have joined in an unholy budget-cut alliance with of all people a head of government who possibly wants to leave the European Union. If Germany wants more Europe in the future, it needs partners who also see their future in Europe.' Chancellor Merkel retorted: 'We couldn't have explained to Europe, neither countries in crisis, nor the ones shouldering solidarity, that all would have to cut spending apart from Europe itself ... Germany achieved all of its goals in the EU budget negotiations."

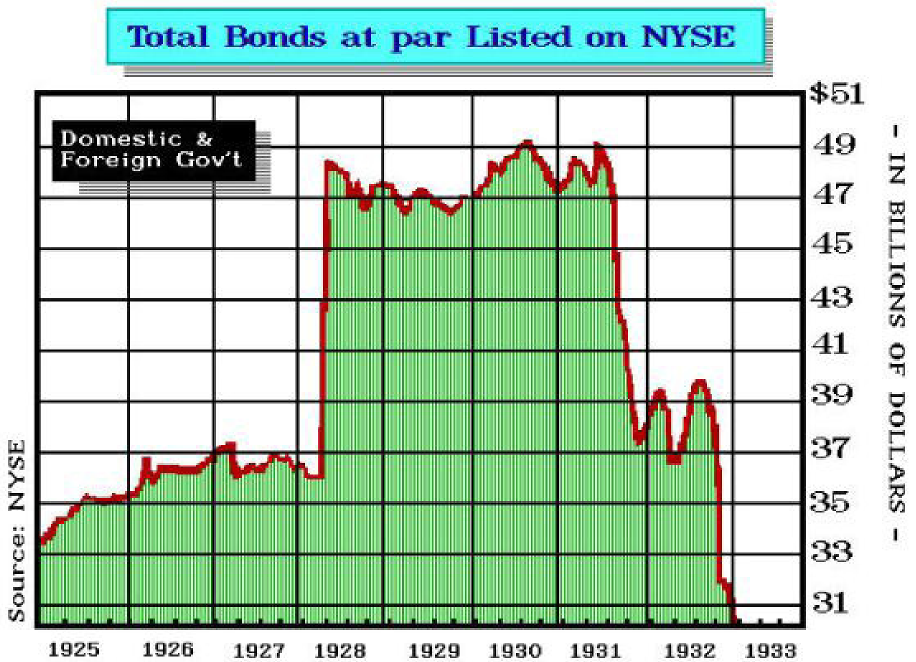
U.K. Prime Minister David Cameron and German Chancellor Angela Merkel Source: Daily Telegraph

Friday, February 22nd

- Front Page Headline, Daily Telegraph U.K. – **“Moody’s Strips Britain of Prized ‘AAA’ Credit Rating.** Moody’s Investors Service downgrades Britain’s sovereign debt credit rating from ‘AAA’ to ‘Aa1’ citing: ‘continuing weakness in the UK’s medium term outlook for its gross domestic product (GDP), with a period of sluggish growth which we now expect will extend into the second half of the decade. Moreover, the government’s debt reduction program faces significant challenges while the U.K.’s huge debts are unlikely to be reversed before 2016. Despite considerable structural economic strengths, (GDP) growth is expected to be sluggish due to the combination of weaker global economic activity and the headwind facing the U.K. economy from the ongoing domestic public and private sector deleveraging process. The above, notwithstanding, the outlook on U.K. debt remains stable.’ U.K. Chancellor of the Exchequer George Osborne noted: “Moody’s decision is a stark reminder of the debt problems facing our country and represents the clearest possible warning to anyone who thinks that we can ignore those problems. Far from weakening our resolve to deliver our economic recovery plan, Moody’s decision redoubles it. We will continue to deliver the plan which has cut the deficit by 25% and afforded us record low interest rates. The U.K.’s creditworthiness remains extremely high thanks in part to a strong track record of fiscal consolidation. Moody’s also makes it absolutely clear that it could downgrade the U.K.’s sovereign debt credit rating further in the event of reduced political commitment to fiscal consolidation. We are not going to ignore our problems; we are going to overcome them.”

- Statistics Canada reports the nation’s retail sales declined by 2.1% in December – led by a drop in automobile sales – following five consecutive monthly gains

- Front Page Headline, Wall Street Journal – **“Euro Zone Economy Is Forecast To Sink Further.** The European Commission (EC) – the European Union’s executive arm – forecasts a 0.3% GDP contraction for 2013 and foresees declining spending by businesses, consumers and national governments, pushing euro zone unemployment to a new high. Mass unemployment is expected to increase in the countries hardest hit by the sovereign debt crisis; with the average unemployment rate expected to reach 27% in Greece, 26.9% in Spain and 17.3% in Portugal. In a statement, Marco Buti, the EC’s top civil servant warned: ‘This forecast portends grave social consequences and will, if unemployment becomes structurally entrenched, also weigh on the outlook for GDP growth perspectives.” Indeed, Armstrong Economics notes: ‘The previous generation who witnessed the Sovereign Debt Crisis of 1931, watched over 3,000 banks fail in the United States and capital simply went into hibernation. Governments (today) are doing everything they can do wrongly at the perfect time to ensure we are in a boatload of trouble. Forget the hyperinflation nonsense. These central bankers are not about to print into oblivion. They are under pressure from bondholders to pay and that means austerity; reducing spending and raising taxes. Just look at these policies and their effect on Greece. Welcome to the real world where reality cannot be ignored forever. Interest rates will rise as they do. This is the serious issue of the Sovereign debt crisis.’



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CLOSING LEVELS FOR FRIDAY, February 22nd		WEEKLY CHANGE
Dow Jones Industrial Average	14,000.57	+ 18.81 points
Spot Gold Bullion (April)	$1,572.40 (U.S.)	– $37.10 per oz
S&P / TSX Composite	12,701.63	+ 15.00 points
10 - Year U.S. Treasury Yield	1.98%	– 2 basis points
Canadian Dollar	97.69 (U.S.)	– 1.70 cents
U.S. Dollar Index Future (Spot Price)	81.609 cents	+ 0.913 cent
WTI Crude Oil (April)	$93.13 (U.S.)	– $2.73 per barrel

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

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