

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



Monday, March 24th

London-based Markit Economics reports its preliminary index of U.S. leading economic indicators declined to a reading of 55.5 in March from a level of 57.1 in February. A reading above 50 indicates expansion

MONDAY, MARCH 24TH

- Front Page Headline, Globe and Mail – “Canadian Prime Minister Harper Warns of Risks by Doing Business in Russia. Speaking to a Dutch / Canadian business forum in The Hague, Canada’s Prime Minister Stephen Harper warned Canadian companies that do business in Russia of possible repercussions, as he prepares for an emergency meeting of G7 leaders who are expected to decide whether to suspend the Russians from the G7 and/or cancel a scheduled meeting in Sochi, Russia. “We will not shape our foreign policy for commercial interests when it comes to a global security crisis, like the current Ukraine – Russia situation. Canadian business people must be aware there may be risks to them ... We don’t like seeing disruption either to investment, or to trade, or to markets, but the fact of the matter is when you are looking at it from the standpoint of a greater national interest ... when you have something like a military occupation of a country by another, this is not something which we can subordinate to economic interests. These have very serious long-term implications for all of us.” See also, The Week That Was – Russian Tverskoi Court Ruling Symbolizes Kremlin’s Total Abuse of the Legal Process, July 11, 2013.
- Front Page Headlines, Wall Street Journal – “G7 Agrees to Exclude Russia, Increase Sanctions. Leaders of the world’s largest economies agreed today to effectively remove Russia from the Group of Seven Nations in response to Moscow’s military intervention in Ukraine. Meeting in The Hague, Netherlands, the leaders also sharpened their warnings to Russia over the crisis in Ukraine, threatening: ‘Significant consequences for annexing

Crimea and broader economic sanctions should Moscow continue. While today’s summit didn’t result in immediate sanctions on Russia, the European powers – Germany, France, Italy and the U.K. – have stated that step will be authorized if Russia escalates the situation in Crimea. However, the leaders did define their threats against Russia more explicitly, warning of new measures which could adversely affect Russia’s energy exporting economy if tensions over Ukraine continue to rise. In recent days, Russia has alarmed western officials by massing military forces along Ukraine’s eastern border.”



U.S. President Obama and German Chancellor Merkel attend a meeting in The Hague. Source: Yves Herman/Press Pool

- The Markit Economics/HSBC group reports their Chinese purchasing managers’ index (PMI) for manufacturing declined to a reading of 48.1 in March – an 8-month low – from a level of 48.5

5 in February. Qu Hongbin, an economist at HSBC, commented: “Weakness is broadly based with domestic demand softening further. We expect Beijing to launch a series of (monetary) policy measures to stabilize (economic) growth. Likely options include lowering entry barriers for private investment, targeted spending on subways, reducing air pollution, spending on public housing and guiding interest rates to lower levels.”

- Front Page Headline, New York Times – “Five Former Madoff Aides Found Guilty of Fraud. A federal jury in the United States District Court in Manhattan has found five associates of convicted swindler Bernard Madoff, guilty on 31 counts of aiding and abetting one of the largest American Ponzi schemes in history. The five aides each face decades in prison, although the judge will be able to use her discretion in sentencing. Federal prosecutors made a case that two computer engineers Jerome O’Hara and George Perez, helped Mr. Madoff operate an enormous Ponzi scheme by knowingly creating computer programs that could create fake trades and records.



George Perez – Source: Reuters



Jerome O’Hara – Source: Getty Images

Prosecutors also alleged that Mr. Madoff’s portfolio managers Joann Crupi and Annette Bongiorno, as well as the firm’s operations director Daniel Bonventre, conspired in various ways to lie to customers, cheat on taxes and falsify records at Madoff Securities.



Annette Bongiorno – Source: Reuters



Daniel Bonventre – Source: Reuters



Joann Crupi – Source: Reuters

Preet Bharara, the U.S. attorney in Manhattan whose office brought the case, concluded: ‘These convictions, along with the prior guilty pleas of nine other defendants, demonstrate what we have believed from the earliest stages of the investigation: this largest-ever Ponzi scheme could not have been the work of one person. The trial established that the Madoff fraud began at least as far back as the early 1970s, decades before it came to light. These defendants each played an important role in carrying out the charade, propping it up and concealing it from regulators, auditors, lenders, investors and taxing authorities.’

Madoff Securities collapsed in 2008 after Mr. Madoff confessed to the Ponzi scheme. He is currently serving a 150 year prison term. The day that he was arrested, Mr. Madoff’s clients be-

believed their portfolios contained a total of \$64.8 billion (U.S.). According to bankruptcy trustee Irvin Picard, investors actually had a loss of about \$17.3 billion (U.S.). Mr. Madoff's clients included individual investors, as well as a number of philanthropic institutions, including the foundation begun by the Nobel Peace Prize winner Elie Wiesel, which lost more than \$15 million (U.S.)."

- Front Page Headline, Financial Times – "S&P Downgrades Brazil's Sovereign Credit Rating to One Level above Junk. Standard & Poor's downgrades Brazil's long-term foreign currency sovereign credit rating from BBB (High) to BBB (Low) with a stable outlook, its lowest investment grade rating. In a statement, S&P cited: 'The downgrade reflects the combination of fiscal slip-page, the prospect that fiscal execution will remain weak amid subdued economic growth in the coming years, a constrained ability to adjust monetary policy ahead of the October presidential elections and some weakening in Brazil's external account. The stable outlook reflects our view of institutional and balance sheet strength; in addition to well-established political institutions, broad commitment to monetary policies which maintain economic stability and its large and diversified economy. Low economic growth prospects reflect both cyclical and structural factors including investment as a share of GDP of only 18% in 2013 and a slowdown in growth in the labor force. Combined, these factors underscore the government's diminished room for manoeuver in the face of external shocks.'
- Front Page Headline, Daily Telegraph U.K. – "Capital Controls Feared in Russia after \$70 billion (U.S.) Flight. Capital flight from Russia has spiked dramatically since President Vladimir Putin first sent troops into Crimea and may reach \$70 billion (U.S.) over the 1st. quarter of the year, prompting fears that the country may soon be forced to impose capital controls to stem the loss. Andrei Klepach, the deputy economy minister, admitted in Moscow that the capital outflows are likely to reach \$65 – \$70 billion (U.S.), far higher than originally expected and a clear sign that investors are extremely nervous of escalating sanctions. Bartosz Pawlowski, an analyst at BNP Paribas, cautioned: 'It is shocking. The markets have been extremely complacent, fooling themselves that Russia is invulnerable because it has almost \$500 billion (U.S.) in foreign exchange reserves. However, reserves can become almost irrelevant in this sort of crisis.' Lars Christensen at Danske Bank noted: 'Whatever happens now, there has been permanent damage to the Russian economy because investors are not going to forget this experience lightly.' The United States and the European Union (EU) are increasing the pressure on Russia each day, following a spate of sanctions announced last week on President Putin's inner circle. The

U.S. Energy Department announced today that it would permit exports of liquefied natural gas (LNG) from Jordan Cove in Oregon, a move aimed at boosting global natural gas supply. This allows LNG shipments from other sources intended for Russia to be diverted to Europe instead, if needs be. U.S. Senator Lisa Murkowski, a member of the Senate Energy Committee, noted: 'Given the situation in Ukraine, this license sends a positive signal to our allies.' Carlos Pascual, a senior official at the U.S. Energy Department, told a Brussels forum over the weekend that the U.S. has freed up shale gas amounting to nearly 80 billion cubic meters (BCM) of global LNG supply annually, which can be used in Europe. The EU's annual gas imports from Russia total about 130 BCM. Last Friday, European leaders took the unprecedented step of ordering EU staff to draft plans within 90 days to slash dependence upon Russian gas; a clear signal to the Kremlin that they will not allow energy politics to dictate their handling of the Ukraine crisis."

## TUESDAY, MARCH 25TH

- The Commerce Department reports new U.S. home sales declined by 3.3% to an annualized pace of 440,000 units in February, following a 455,000 unit pace in January.
- Front Page Headline, Bloomberg News – "China's Smog at Center of Air Pollution Deaths: WHO. A new report released by the World Health Organization concludes: 'About 40% of the seven million people killed by air pollution globally in 2012 lived in the region dominated by China. Air pollution caused more deaths worldwide than AIDS, diabetes and road injuries combined.' Yesterday, WHO Director General Margaret Chan called China's situation 'a regional health issue that harms the nation's economy.' Moreover, a March 19th. study by Columbia University and Chongqing Medical University, found that babies – whose mothers were exposed to a Chinese coal-fired power plant had poorer learning and memory skills."



Amid heavy smog, visitors wearing face masks leave the Temple of Heaven in Beijing.

Source: AP Images



- The New York-based Conference Board reports its consumer confidence index rose to a reading of 82.3 in March from a level of 78.3 in February, marking the highest level since January 2008. Lynne Franco, Director of Economic Indicators at the Conference Board noted: “While consumers were moderately more upbeat about future job prospects and the overall economy, they were less optimistic about income growth.”
- The S&P / Case-Shiller group reports its index of property values in 20 U.S. cities rose by 13.2% on a year-over-year basis in January, following an annual increase of 13.4% in December. Price appreciation on a year-over-year basis has eased in recent months as higher mortgage rates and unusually severe winter weather reduced demand for properties.

WEDNESDAY, MARCH 26TH

- Front Page Headline, Wall Street Journal – “BOE and PBOC Agree to Settle Transactions in Yuan. Britain moved a step closer to solidifying its status as the Western hub for financing and trade in the Chinese yuan with an agreement to establish the first official clearing service for the currency outside of Asia. The Bank of England and the Peoples’ Bank of China will sign a memorandum of agreement on Monday next to outline how they will share in the operations, with a clearing bank to be named at a later date. The plan is the latest coup for London in its efforts to facilitate trade and investment in the Chinese currency and attract more business from banks, corporations and investors. The new service means that yuan transactions can be settled in

London, instead of accessing the PBOC in Hong Kong. Issuing a brief press release, U.K. Chancellor of the Exchequer George Osborne stated: ‘Over the last three years, I’ve led a solid government initiative to ensure we’re the leading Western center for trading in the Chinese currency. That effort has paid off and today’s agreement is another major step forward.’



Chinese 100 yuan banknotes at a Standard Chartered PLC bank branch in Hong Kong. Photo source: Bloomberg News.

- The Commerce Department reports U.S. durable goods – products expected to last for at least three years – orders rose by 2.2% in February, citing higher bookings for aircraft and automobiles, following a downwardly revised drop of 1.3% in January previously reported as a decline of 1%. Meanwhile, non-military capital goods sales – excluding aircraft – rose by a 5.1% annualized pace in the December – February period, following a 7.8% annualized gain in the November – January period.

- Front Page Headline, Washington Post – “FBI Conducts Raids Targeting Elected Officials in Three States. Federal law enforcement officials arrested two public officials in California and North Carolina and raided the office of a New York State Senator today, in connection with separate corruption investigations. Hundreds of federal agents conducted searches of offices around the San Francisco Bay Area and arrested several people yesterday, including State Senator Leland Lee (D) and a former head of a Hong Kong crime syndicate. Also, Charlotte Mayor Patrick Cannon (D) was arrested today and charged with theft and bribery after an FBI sting operation. Mayor Cannon was elected last November – after serving for two decades on the Charlotte City Council – and allegedly solicited and accepted bribes from undercover FBI agents. Then in New York, FBI agents raided Assemblyman William Scarborough’s (D) offices and questioned him at his Albany hotel room about per diem reimbursements he received during his service in the state legislature.”

#### THURSDAY, MARCH 27TH

- The National Association of Realtors (NAR) reports its U.S. pending home sales index declined by 0.8% in February to a reading of 93.9 – the lowest reading since October 2011 – following a level of 94.7 in January; citing low inventory, declining affordability and harsh winter weather.
- Front Page Headline, Bloomberg News – “Ukraine to Receive \$27 billion (U.S.) Aid Package via IMF. The Kiev government has reached a preliminary agreement with the International Monetary Fund for a two-year loan, to avert default and limit economic damage from a four-month political crisis. The Ukrainian cabinet must complete ‘prior actions’ in order to receive the first installment as soon as next month.
- The Commerce Department reports the U.S. gross domestic product (GDP) grew by an upwardly revised 2.6% annual pace in the 4th. quarter of 2013, rather than the 2.4% rate reported in February. The revision reflected a stronger pace of consumer spending than previously estimated.
- The Labor Department reports U.S. initial claims for state unemployment benefits fell by 10,000 to a seasonally adjusted 311,000 in the week ended March 22nd. – the lowest level since November 2013 – while continuing claims declined by 53,000 to 2.82 million in the week ended March 15th.
- Front Page Headline, Reuters – “Bank of America / Former CEO Lewis Settle Lawsuit over Merrill Acquisition. Former Bank of America CEO Kenneth Lewis – 66 and now retired – has settled

a lawsuit accusing him of deceiving investors about the B of A’s acquisition of Merrill Lynch & Co. in 2008. According to a copy of the agreement obtained by Reuters, Mr. Lewis – the Bank’s chief executive officer from 2001 to 2009 – will pay \$10 million (U.S.) to resolve claims by New York Attorney General Eric Schneiderman that he misled shareholders and the federal government in order to complete the acquisition, which closed on January 1, 2009. Mr. Lewis had been accused of concealing Merrill’s mounting losses from Bank of America shareholders, prior to a December 5, 2008 vote on the acquisition and manipulating the U.S. government into providing an extra \$20 billion (U.S.) bailout by falsely claiming that BofA would back out of the acquisition without the money. As part of the agreement, Mr. Lewis will also be barred for three years from serving as an officer or director of a public company. BofA will pay \$15 million (U.S.) to resolve its portion.” At Longwave Analytics, we suggest perhaps Mr. Lewis should avail of himself to run for election as Mayor of Charlotte, N.C. which post seems to have been recently vacated. See above Tuesday, March 26th. See also, The Pathetic Saga of Countrywide Financial Corp – Economic Winter, February 1, 2012.



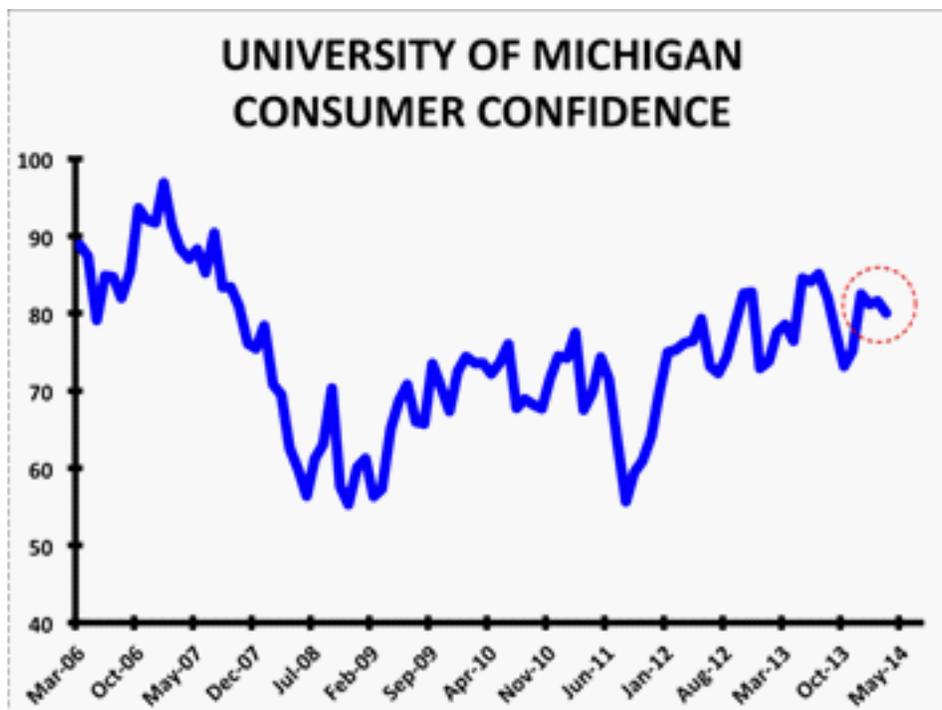
Mr. Lewis testifies before the House Oversight and Government Reform Committee in 2009. Photo Source: Reuters files.

- Front Page Headline, Reuters – “B of A to Pay \$9.3 Billion (U.S.) to Settle Mortgage-Backed Securities Claims. The U.S. Federal Housing Finance Agency (FHFA) reports the Bank of America has agreed to pay \$9.3 billion (U.S.) to Fannie Mae and Freddie Mac in order to settle claims that it sold the government-controlled mortgage companies subprime mortgage-backed securities during the housing bubble. It was the tenth settlement that the FHFA has reached in litigation that began in 2011 when it filed 18 lawsuits totaling over \$200 billion (U.S.) in subprime mortgage-backed securities.

#### FRIDAY, MARCH 28TH

- The Thomson Reuters/University of Michigan group reports their index of U.S. consumer sentiment registered a final reading of 80.0 for March, following a reading of 81.6 in February. In a statement, survey director Richard Curtin commented: “Cur-

rent conditions in the overall U.S. economy were reported by consumers to have recently weakened and their long-term prospects for the economy softened.”



Source: Business Insider (Bloomberg data).

**CLOSING LEVELS FOR FRIDAY, MARCH 28TH.**

**WEEKLY CHANGES**

|                              |                    |                     |
|------------------------------|--------------------|---------------------|
| Dow Jones Industrial Average | 16,323.06          | + 20.29 points      |
| Spot Gold Bullion            | \$1,293.80 (U.S.)  | – \$42.20 per oz.   |
| S&P / TSX Composite          | 14,260.72          | – 75.04 points      |
| 10-Year U.S. Treasury Yield  | 2.72%              | – 2 basis points    |
| Canadian Dollar              | 90.42 cents (U.S.) | + 1.21 cents        |
| U.S. Dollar Index Future     | 80.183             | + 0.021 cent        |
| WTI Crude Oil Futures        | \$101.67 (U.S.)    | + \$2.21 per barrel |

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

Disclaimer : This information is made available by Long Wave Analytics Inc. for information purposes only. This information is not intended to be and should not be construed as investment advice, and any recommendations that may be contained herein have not been based upon a consideration of the investment objectives, financial situation or particular needs of any specific reader. All readers must obtain expert investment advice before making an investment. Readers must understand that statements regarding future prospects may not be achieved. This information should not be construed as an offer to sell, or solicitation for, or an offer to buy, any securities. The opinions and conclusions contained herein are those of Long Wave Analytics Inc. as of the date hereof and are subject to change without notice. Long Wave Analytics Inc. has made every effort to ensure that the contents have been compiled or derived from sources believed reliable and contain information and opinions, which are accurate and complete. However, Long Wave Analytics Inc. makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions which may be contained herein, and accepts no liability whatsoever for any loss arising from any use of or reliance on this information. Long Wave Analytics Inc. is under no obligation to update or keep current the information contained herein. The information presented may not be discussed or reproduced without prior written consent. Long Wave Analytics Inc., its affiliates and/or their respective officers, directors or employees may from time to time acquire, hold or sell securities mentioned herein. In addition, the companies referred to herein may pay a fee to Long Wave Analytics Inc. to be listed on [www.longwavegroup.com](http://www.longwavegroup.com). Copyright © Longwave Group 2014. All Rights Reserved.

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