Monday August 25th, 2014

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

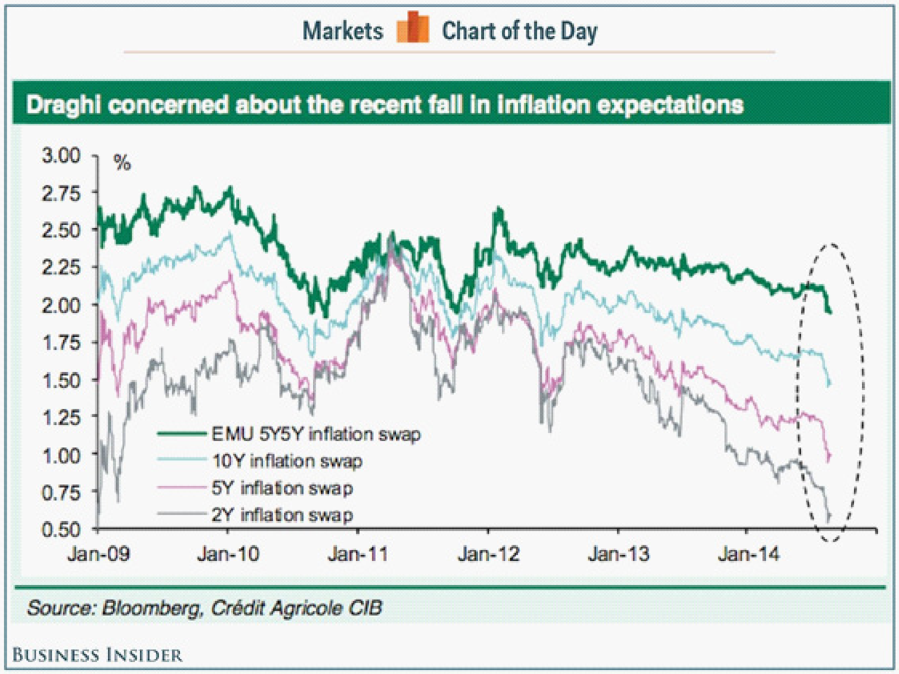
Monday, August 25th

The Munich-based Ifo Institute for Economic Research reports its German business climate index, based upon a survey of 7,000 executives , declined – for the fourth consecutive month – to a reading of 106.3 in August from a level of 108 in July.

MONDAY, AUGUST 25TH

Jens-Oliver Niklasch, a fixed income strategist at Landesbank Baden-Wuerttemberg in Stuttgart, commented: ‘The German economy has been slowly sliding back. Since there’s a lot of uncertainty in Eastern Europe, we can see that the investment climate for German companies is gradually cooling off.’

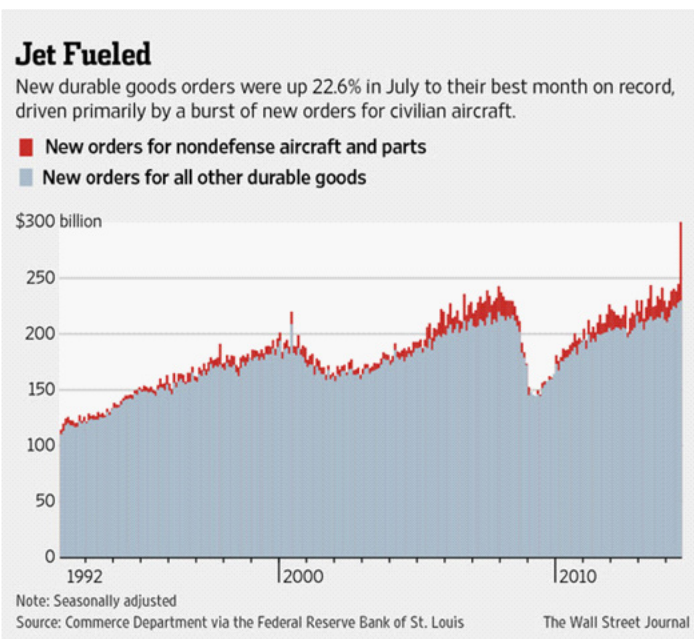
- The Commerce Department reports U.S. new single-family home sales declined by 2.4% to a seasonally adjusted annual rate of 412,000 units in July, from an upwardly revised pace of 422,000 units in June. Thomas Simons, an economist at Jeffries LLC in New York noted: ‘The housing data are still moving in the right direction, just a little more slowly.’



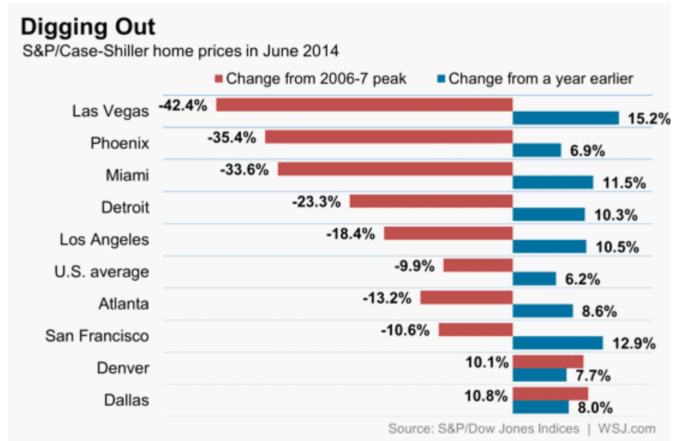
TUESDAY, AUGUST 26TH

- The New York-based Conference Board reports its consumer confidence index rose to a reading of 92.4 in August, following a revised level of 90.3 in July. Lynn Franco, director of economic indicators at the Conference Board, noted: "Consumers were marginally less optimistic about the short term economic outlook in August, than in July, primarily due to concerns about their earnings. However, overall, consumers remain quite positive about the short term outlook for both the economy and the labor market."

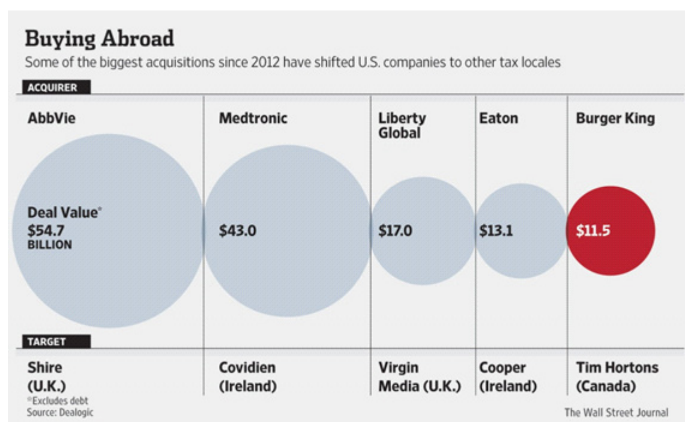
- The Commerce Department reports U.S. durable goods – products expected to last for at least three years – orders surged by 22.6% in July, following an upwardly revised gain of 2.7% in June, led by higher demand for airplanes and automobiles. Boeing Co. – the Chicago-based aerospace company – revealed it received 324 orders in July, almost triple the 109 tally for June.



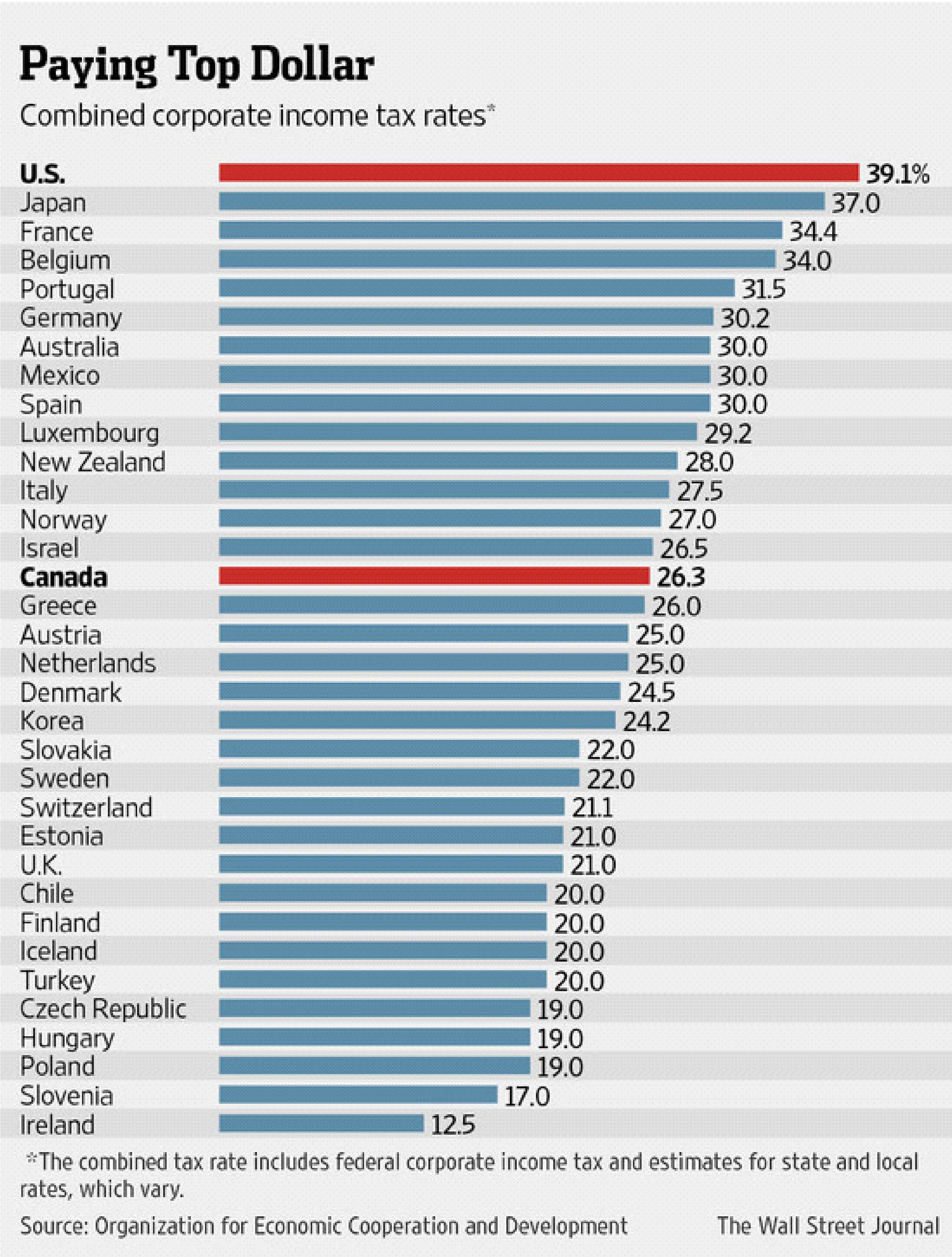
- The New York-based S&P / Case Shiller group reports its index of property values in 20 U.S. cities rose by 8.1% in June on a year-over-year basis, the lowest 12-month gain since January, 2013. Anika Khan, an economist at Wells Fargo Securities in Charlotte, N.C., commented: "We're seeing more inventories of lots becoming available, which is putting some pressure on house prices. In general, we have recently seen house prices rise at a faster pace than the fundamentals would warrant. So, there's just a normalization process happening at present."



- Front Page Headline, Wall Street Journal – "Burger King Announces Plan to Acquire Tim Hortons. Miami-based Burger King confirms plans to purchase Ontario-based Tim Hortons for about $11 billion (U.S.) or $12.5 billion (CAD), creating a new fast food giant which will remain based in Canada. In a media conference call, Burger King Executive Chairman Alex Behring cited: 'This is not a tax-driven transaction. Fundamentally, it is about corporate growth and creating shareholder value through accelerated expansion.'



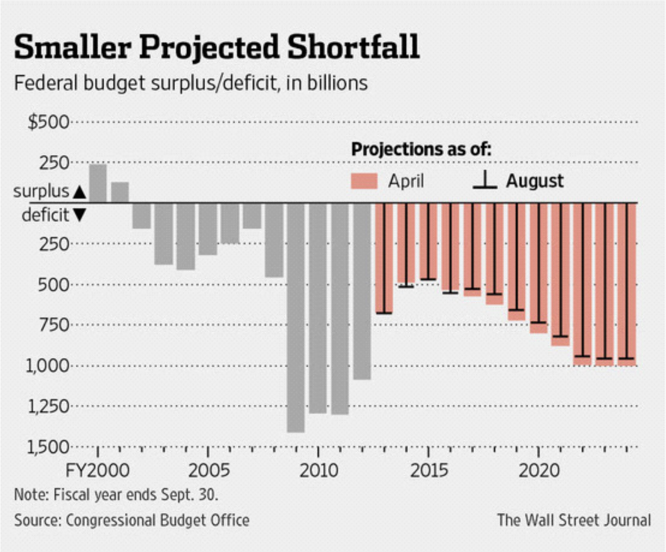
Burger King executives confirmed the takeover is designed to create a new powerhouse in the quick-service restaurant sector, with approximately, $23 billion (U.S.) in system sales across more than 18,000 restaurants. However, to date they have only identified a few specific operational benefits of combining the two companies, which are both heavily concentrated within their own markets. Burger King Chief Executive Daniel Schwartz noted: 'Burger King's mid-20% tax rate is consistent with Canada's corporate tax rate. Burger King pays a lower tax rate because of its presence in so many international markets. Therefore, because the Burger King unit of the combined company will remain based in Miami, it will continue to pay the same U.S, taxes that it has previously.'


Paying Top Dollar
Combined corporate income tax rates*
U.S. 39.1%
Japan 37.0
France 34.4
Belgium 34.0
Portugal 31.5
Germany 30.2
Australia 30.0
Mexico 30.0
Spain 30.0
Luxembourg 29.2
New Zealand 28.0
Italy 27.5
Norway 27.0
Israel 26.5
Canada 26.3
Greece 26.0
Austria 25.0
Netherlands 25.0
Denmark 24.5
Korea 24.2
Slovakia 22.0
Sweden 22.0
Switzerland 21.1
Estonia 21.0
U.K. 21.0
Chile 20.0
Finland 20.0
Iceland 20.0
Turkey 20.0
Czech Republic 19.0
Hungary 19.0
Poland 19.0
Slovenia 17.0
Ireland 12.5
*The combined tax rate includes federal corporate income tax and estimates for state and local rates, which vary.
Source: Organization for Economic Cooperation and Development
The Wall Street Journal

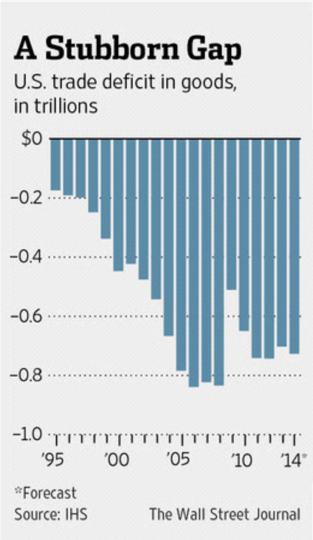
In a press release, Tim Hortons current CEO Marc Caira stated: 'As an independent brand within the new company, this transaction will enable us to move more quickly and efficiently to bring Tim Hortons iconic Canadian brand to a new global customer base. Simultaneously, our customers, employees, franchisees and fellow Canadians can all rest assured that Tim Hortons will still be the same following this transaction."

WEDNESDAY, AUGUST 27TH

- In a new report, the non-partisan Congressional Budget Office (CBO) projects a U.S. federal deficit of $506 billion (U.S.) for the fiscal year ending September 30, 2014 being 2.9% of gross domestic product (GDP); upwardly revised from an April projection of $492 billion (U.S.) and compared with a fiscal 2013 deficit of $680 billion (U.S.). At a Washington press conference, CBO Director Douglas Elmendorf stated: "During the past few years, the federal budget deficit has declined sharply and is on a path to drop further this year and next. However, under current law, later in the decade the federal deficit will grow again relative to the size of the economy and the national debt will climb." See also, Economic Winter – It's Still the Debt, Stupid. March 21, 2014.



- Front Page Headline, Wall Street Journal – "U.S. Factories Losing Ground to Global Rivals. According to data from Global Trade Information Services, the U.S. deficit in trade on goods ballooned in the first half of the year to $371.59 billion (U.S.) from $354.64 billion (U.S.) in the same period of 2013. Imports rose by 3.3%, while exports increased by 2.6%. Manufactured exports, excluding petroleum and coal, rose by only 0.8%, far below last year's modest 2.1% gain.



Achieving export growth is difficult since China and other countries have pursued aggressive export strategies while America has lost manufacturing skills and suppliers after shifting production abroad. In addition, U.S. trade gaps with the three largest members of the European Monetary Union – Germany, France and Italy – all increased in the first half. IHS economist Michael Montgomery forecasts: 'Lower U.S. energy costs and a narrowing wage gap have a gradual effect which isn't yet visible in the trade balance.'

- Front Page Headline, Finance and Economics.org – "Three Biggest Reasons to Invest in Gold. In a recent London interview on the topic of gold by Lars Schall of Matterhorn Asset Management, researcher Alasdair Macleod acknowledged: 'There are several billion people living in southeast Asia, particularly in China (where the government is actually encouraging its citizens to own gold), who consider gold to be money because it retains its value and cannot be printed by the government. Elsewhere, people in Turkey and India own gold simply because they do not trust paper money.' Prompted by Mr. Schall to give three main reasons why investors should own gold, Mr. Macleod stated unequivocally:

1. 'So much paper money has been printed since the Lehman Bros. crisis of 2007 that gold is the only asset which has not lost its purchasing power. So, I still see gold as severely undervalued.'

2. 'China and Russia are trying to corner the gold market, to the extent that over the next several years I think we are going to witness the greatest transfer of wealth from west to east in all of human history.'

3. 'I was absolutely amazed that the U.S. Federal Reserve could not deliver the gold bullion requested by the German Bundesbank several months ago, but could only ship out 300 metric tonnes. Therefore, I have concluded that the gold bullion held by western central banks is considerably less than is reported in their records.'

THURSDAY, AUGUST 28TH

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 1,000 to 298,000 in the week ended August 23rd. while continuing claims increased by 25,000 to 2.53 million in the week ended August 16th.

- The National Association of Realtors (NAR) reports its U.S. pending home sales index rose by 3.3% to a seasonally adjusted reading of 105.9 in July, following a level of 102.5 in June.

- Statistics Canada reports the nation's current account deficit narrowed slightly to $11.87 billion (CAD) in the 2nd. quarter citing higher investment income; following a downwardly revised 1st. quarter deficit of $12.03 billion (CAD), initially reported as $12.39 billion (CAD).

- The Commerce Department reports the U.S. gross domestic product (GDP) grew by an upwardly revised annual rate of 4.2% in the second quarter, up slightly from an initial estimate of 4.00%.

- Front Page Headline, Daily Telegraph U.K. – "Scottish Independence: CBI Chairman Warns of Enormous Risks with a Yes Vote. In an impassioned plea to keep Britain together at the CBI's annual dinner in Glasgow, Sir Mike Rake, the President of the Confederation of Business Industry warned: 'Scottish succession would endanger the economic recoveries on both sides of the border. The questions we've raised have never been about whether Scotland would be able to survive outside the United Kingdom; rather the issue is whether it would prosper. Our views are based solely upon hard economic facts and the CBI does not see any substantive evidence for the position that independence would be economically beneficial for Scotland, or the rest of the U.K. Indeed, to the contrary, it will continue to create real uncertainty which could prejudice the economic recovery, both in Scotland and across the United Kingdom. I cannot overemphasize our belief that Scotland and the rest of the United Kingdom would remain stronger together."

FRIDAY, AUGUST 29TH

- Statistics Canada reports the nation's gross domestic product (GDP) rose by an annualized 3.1% in the 2nd. quarter led by increased household spending and higher exports, following a gain of 0.9% in the 1st. quarter. Charles St. Arnaud, an economist at Nomura International in London, commented: "We believe the underlying momentum in the Canadian economy hasn't changed; so we continue to think the Bank of Canada will remain cautious about the domestic economy and leave the Bank Rate unchanged at 1% at next week's monetary policy meeting."

- The University of Michigan /Thomson Reuters group reports their consumer confidence index rose to a reading of 82.5 in August, following a final level of 81.8 in July.

- Front Page Headline, GoldMoney.com – "The Wages Fuel Demand Fallacy. Researcher Alasdair Macleod warns: 'Disappointed with the pace of economic recovery, over recent months various economists have focused their attention on wages. If only wages could grow, they have mused, there would be more demand for goods and services, because without wage growth, economies will continue to stagnate. This amounts to a non-specific call to stimulate aggregate demand by continuing with, or even accelerating the expansion of the money supply. The thinking is the same as that behind Bernanke's monetary distribution by helicopter. Unfortunately, for these wishful thinkers, the disciplines of the marketplace cannot be bypassed. If everyone receives more money without a balancing increase in the supply of goods, there is no surer way of stimulating price inflation, collapsing a currency's purchasing power and losing all control of interest rates. The underlying error is to fail to understand that economizing individuals make things in order to be able to buy things. That is the order of events: earn it first and spend it second. No amount of monetary shenanigans can alter this basic fact. Instead, expanding the quantity of money will always result in devaluing the wealth and earning power of ordinary people; the same people who are being encouraged to spend and destroy genuine economic activity in the process. This is the reason why monetary stimulation never works, except for a short period if and when the public is fooled by the process. Businesses, owned and managed by ordinary people, are no longer fooled.

  They are purchasing their equity instead of investing in new production because they know that investing in a production doesn't earn a decent rate of return. This is the logical response by businesses to the destruction of their customers' wealth through currency debasement. Let me sum up currency debasement with an aphorism: 'You print some money to rob the wealth of ordinary people, to give to the banks, to lend to business, to make their products for customers to buy with money devalued by printing.' It is as ridiculous a circular proposition as perpetual motion, yet central banks never seem to question it. Monetary stimulus fails with every credit cycle when the destruction of wealth is exposed by rising prices. However, in this credit cycle, the deception was so obvious to the general public that it failed from the outset.

  The last five years have witnessed all beliefs in the manageability of aggregate demand comprehensively demolished by experience. The unfortunate result of this failure is that central bankers now see no alternative to maintaining things as they are, because the financial system has become horribly overly levered and probably wouldn't survive the rise in interest rates that a genuine economic recovery entails anyway. Price inflation would almost certainly increase well above the 2% target forcing central banks to raise interest rates, throwing bonds and stocks into a severe bear market and imperiling government finances. The financial system is simply too highly levered to survive a credit driven recovery. Japan, which has accelerated monetary debasement of the yen at an unprecedented rate, finds itself in this trap. If anything the pace of its economic deterioration is increasing. The explanation is simple and confirms the obvious: monetary debasement impoverishes ordinary people. Far from boosting the economy, it is rapidly driving us into a global slump. The solution: not higher wages."

- Front Page Headline, Wall Street on Parade – "JP Morgan Expended $18 Billion (U.S.) on Stock Buy Back over Four Years. Jeffrey Kleintop, chief market strategist for LPL Financial, reports: 'Corporations are now the single largest buying source for U.S. stocks – authorizing purchases of their own shares to the tune of $754.8 billion (U.S.) in 2013 alone.' According to Birinyi Associates, for the calendar years 2006 through 2013, corporations authorized $4.14 trillion (U.S.) in buybacks. Some stock bull market that is.

  JP Morgan Chase, the largest American bank by assets, has turned share buybacks into an art form, purchasing nearly $18 billion (U.S.) of its own shares from 2010 through 2013. In just the calendar year of 2011 alone, JP Morgan expended $8.827 billion (U.S.) on stock buybacks. According to JP Morgan's most recent quarterly report, filed with the Securities and Exchange Commission (SEC): 'The firm's Board of Directors has authorized the Bank to repurchase $6.5 billion (U.S.) of common equity between April 1, 2014, and March 31, 2015.' If the full authorization of $6.5 billion (U.S.) is expended by the end of the 1st. quarter of 2015, JP Morgan will have tapped its capital to the tune of $24.5 billion (U.S.) i.e. money not loaned to deserving businesses, home buyers or consumers, but to binge on its own stock buybacks.

  Having a steady pool of billions of dollars to support a company's share price might seem like a neat trick to top corporate executives, whose compensation is partly tied to the performance of the company's stock, but it does little to assist a nation struggling from the aftermath of the economic ravages, unleashed by the big bank financial crash in 2008 … The U.S. Bureau of Labor Statistics (BLS) reports a current labor force participation rate of just 62.8%, the lowest level since the late 1970's and owing in part to discouraged workers who have given up looking for a job. Surely, using capital to grow a business and create good jobs should trump retiring a bank's stock … Indeed, many corporations are borrowing heavily to fund these share repurchase transactions. There is also a concern that the public is given very little information about how these buybacks are conducted."

Symbol	JPM	**Report**	NMS Tier 1
Description	JPMorgan Chase & Co.	**Week of**	07/07/2014
Product	CTS		
Total Shares	11,840,272	**Total Trades**	66,526

ATS Description	Shares	Shares Last Updated Date	Trades	Trades Last Updated Date
UBSA UBS SECURITIES LLC	1,490,378	07/28/2014	12,364	07/28/2014
CROS CREDIT SUISSE SECURITIES (USA) LLC	1,410,743	07/28/2014	8,944	07/28/2014
JPMX J.P. MORGAN SECURITIES LLC	1,018,943	07/28/2014	2,249	07/28/2014
MLIX MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED	837,443	07/28/2014	4,501	07/28/2014
DBAX DEUTSCHE BANK SECURITIES INC.	833,000	07/28/2014	6,057	07/28/2014
SGMA GOLDMAN SACHS EXECUTION & CLEARING, L.P.	746,649	07/28/2014	5,450	07/28/2014
MSPL MORGAN STANLEY & CO. LLC	745,600	07/28/2014	3,846	07/28/2014
FLOW LAVAFLOW, INC.	489,041	07/28/2014	2,544	07/28/2014

Trading in the stock of JPMorgan Chase for the week of July 7, 2014. Source: FINRA

LONGWAVE group

CLOSING LEVELS FOR FRIDAY, AUGUST 29TH.		WEEKLY CHANGE
Dow Jones Industrial Average	17,098.45	+ 97.23 points
Spot Gold Bullion	$1,287.40 (U.S.)	+ $6.50 per troy oz.
Spot Silver	$19.51 (U.S.)	+ $0.05 per troy oz.
S&P / TSX Composite	15,625.73	+ 90.18 points
10 – Year U.S. Treasury Yield	2.34%	– 6 basis points
Canadian Dollar	91.97 cents (U.S.)	+ 0.60 cent
U.S. Dollar Index Future	82.794	+ 0.463 cent
WTI Crude Oil Futures	$95.96 (U.S.)	+ $2.31 per barrel
DJIA / Gold Ratio	13.28	Unchanged
Gold / Silver Ratio	65.99	+ 0.17 point

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