Monday February 10th, 2014

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, February 10th

Front Page Headline, Bloomberg News - "Japan's Current Account Deficit Widens to Record in December. The Finance Ministry in Tokyo reports Japan's current account deficit widened to 638.6 billion yen ($6.2 billion U.S.) in December, surpassing Novem-

MONDAY, FEBRUARY 10TH

ber's gap of $592.8 billion yen. Takeshi Minami, an economist at the Norinchukin Research Institute, commented: 'A surge in domestic demand ahead of the sales tax hike is adding to the deficit; a trend that is expected to continue through March.' Japan's sales tax will increase to 8% in April from the current 5% level and potentially to 10% in October, 2015.

- Front Page Headline, MidasLetter – "Gold and Silver Prices Poised to Rise Dramatically. As James West reasons: It's been two and a half years since the bank coordinated reversal of the bull market in gold and silver began on September 7, 2011, the day after gold touched an intraday high of $1,923.70 (U.S.) per ounce. Since then, there have been repeated coordinated operations which have seen the price of gold (bullion) taken down to the $1,100 (U.S.) level. However, today the price of gold is insistently yearning upward through its technically significant $1,260 (U.S.) level, despite a poorly regulated futures market that annually supplies imaginary gold on a virtually unlimited basis to the sell side, in the form of futures sales of gold which are rarely, if ever, settled with physical gold.

Of course, such theories are dismissed by mainstream financial commentators and other market participants who sneer at them as just so much conspiracy theory. However, given the recent revelations of manipulation of interest rates, plus the multitude of unprosecuted crimes among financial titans such as Jon Corzine and Steven Cohen, the possibility that such a conspiracy exists carries incrementally more weight with each passing year.

However, I'm not here to debate the existence of such a conspiracy today. To me, the overwhelming evidence confirming that it does indeed exist and is in fact relied upon by the United States government to perpetuate the illusion of viability of the rapidly depreciating U.S. dollar is impossible to discount.

In fact, the continuing ability of the futures market to dictate a depressed and compromised gold price to the spot market has been rendered possible by the transfer of a portion of the $75 billion (U.S.) per month in Tier 1 assets fabricated from thin air by the United States Federal Reserve to duplicitous futures market participants who clear contracts using cash supplied from this scheme in lieu of gold … The government of the United States could not possibly coordinate such a complex scheme involving the nation's top banks, when both are constitutionally mandated to act in the best interests of the citizens of the United States. However, citizens' interest notwithstanding, if such a conspiracy was in fact behind the ability of the futures market to suppress the prices of gold and silver to convey to the financial world the superiority of United States denominated assets over precious metals, then that ability and the scheme itself would be weakened by the reduction of Quantitative Tier 1Asset Fabrication, as the supply of fractionally extrapolated credit and capital available would be reduced proportionally. Thus, tapering the production of phony assets must constitute the tapering of the effectiveness of the suppression of gold and silver prices by futures market participants. Among the side effects of delusion monetary and fiscal policy, such as that practiced by the U.S., China, Japan, Europe and the U.K., is that the performance of gold and silver prices as driven by futures markets underscores the fallacy of such pricings' reliability and confirms their irrelevance in real terms. Considering that all of the world's physical gold and silver is being purchased in spot markets and increasingly hoarded in Asia, then relative to the vast amounts of new money being conjured up by these nations, there should be a correlative rise in the prices of precious metals on a strictly nominal basis. Gold and silver production remain flat (on a global basis), but fiat currency production is rampant. Thus, it's simple economic logic that, in a free and uncompromised market, the prices of gold and silver should be rising. A second coincident outcome of coordinated precious metals price suppression is that the demand for physical gold and silver is actually amplified by the suppressed prices, as investors in gold and silver understand through simple math that the current prices, while not relevant to real demand, nonetheless provide an opportunity to accumulate physical gold and silver at bargain prices.

While all of this evidence does not rule out the possibility of some new coordinated effort to suppress a rising gold price, the conclusion that one can draw from analyzing the growing physical demand data, compared to the ineffectiveness of Quantitative Easing (QE) in ameliorating systemic weakness in the U.S. economy, is that the ability to suppress the gold price is breaking down. Moreover, if the trend continues, it may just be that gold will finally throw off the shackles of U.S. dollar interest suppression and resume the upward surge of the last decade."

TUESDAY, FEBRUARY 11TH

- Front Page Headline, Bloomberg News – "Barclays Announces 12,000 Job Layoffs. As a result of a decline in 4th. quarter profit to 191 million pounds ($314 million U.S.), Barclay's Plc – the U.K.'s second biggest bank by assets – will eliminate as many as 12,000 jobs this year, including more than 800 senior bankers. Via a conference call, Barclay's CEO Antony Jenkins announced: 'About 7,000 of the job cuts will be in Britain.'

Supply	YTD	Monthly Average	Annualized	Source
Mine production	2,149	238.8	2,866	China Gold Association
less Chinese domestic production	323	35.9	431	China Gold Association
less Russian domestic production	185	20.6	247	Union of Gold Producers
Total mine production (excluding China & Russia)	**1,641**	**182.4**	**2,188**	
Demand				
Hong Kong net exports to China	1,016	92.4	1,108	Hong Kong Census
Net imports to Hong Kong	573	52.1	625	Hong Kong Census
Thailand – net imports	172	19.1	229	UN COMTRADE statistics
Turkey – net imports	157	17.4	209	UN COMTRADE statistics
India – net imports	582	64.6	776	UN COMTRADE statistics
Central Banks – net purchases	297	33.0	396	GFMS
Other countries – jewellery, coin and bar demand[7]	884	98.2	1,179	GFMS
Total Demand	**3,681**	**376.8**	**4,522**	
Other sources of supply				
Gold recycling	1046.9	116.3	1,396	GFMS
ETF outflows	697.4	77.5	930	GFMS

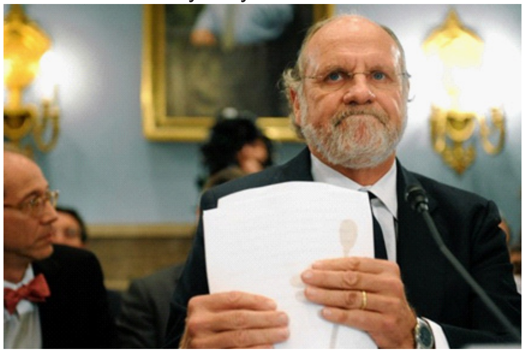
The excessive demand for physical gold relative to mine supply.
Source: Sprott Corp.

- Front Page Headline, Bloomberg News – "House Votes to Suspend Statutory Debt Limit Until March 2015. By a vote of 221 to 201, the U.S. House of Representatives suspended the nation's statutory debt limit – beyond the November mid-term elections – until March 15, 2015. The bill now goes to the Democratic controlled Senate, which is expected to hold its vote prior to the weekend. Currently, the U.S. national debt clock calculates America's debt at $17.3 trillion (U.S.)."

U.S. Speaker of the House John Boehner (R- Ohio).
Photo Source: Bloomberg.

- Front Page Headline, Globe and Mail – "Cautious Budget Pledges Little New Spending for Fragile Canadian Economy. Canada's Finance Minister Jim Flaherty tabled his federal budget in Ottawa for the fiscal year ending March 31, 2015, remarking: 'The world economy is still fragile. One needs to look no further than Europe and the emerging (market) economies to see that. Here at home, household debt is still higher than we'd like and there are still too many unemployed Canadians; as well as too many employers looking for workers … We will ensure that Canada's fiscal position remains strong enough to weather any future global economic storms and that begins with paying down the debt."

- Front Page Headline, Wall Street Journal – "Federal Judge Rules Lawsuit Against Jon Corzine May Proceed. In allowing MF Global Holdings' commodity customers to move forward with a class-action lawsuit against former Chief Executive Officer (CEO) Jon Corzine and other officials, U.S. District Judge Victor Marrero dismissed some claims related to MF Global's collapse, including all of the claims against the company's former auditor Pricewaterhouse Coopers. In his ruling, Judge Marrero concluded: 'I had hoped those involved in litigation could resolve this matter in a just and efficient way. Instead, wasteful and rancorous litigation will likely continue to unfold as customers await compensation.' MF Global filed for bankruptcy protection in October 2011, exposing a $1.6 billion (U.S.) shortfall in its brokerage customer accounts. According to the Commodity Futures Trading Commission (CFTC) lawsuit, that action violated federal laws requiring commodity futures brokers to maintain customer funds separate and barring them from using the funds elsewhere: 'The shortfall must be blamed on the allegedly unlawful conduct by Mr. Corzine and others. The firm's liquidity crisis was caused by an ill-conceived business model devised by Mr. Corzine, the former Governor of New Jersey.' The claims Judge Marrero allowed to advance in the lawsuit include aiding and abetting violations of commodities laws, aiding and abetting breach of fiduciary duty and one of two counts of negligence."



MF Global ex-CEO Jon Corzine.
Source: Reuters

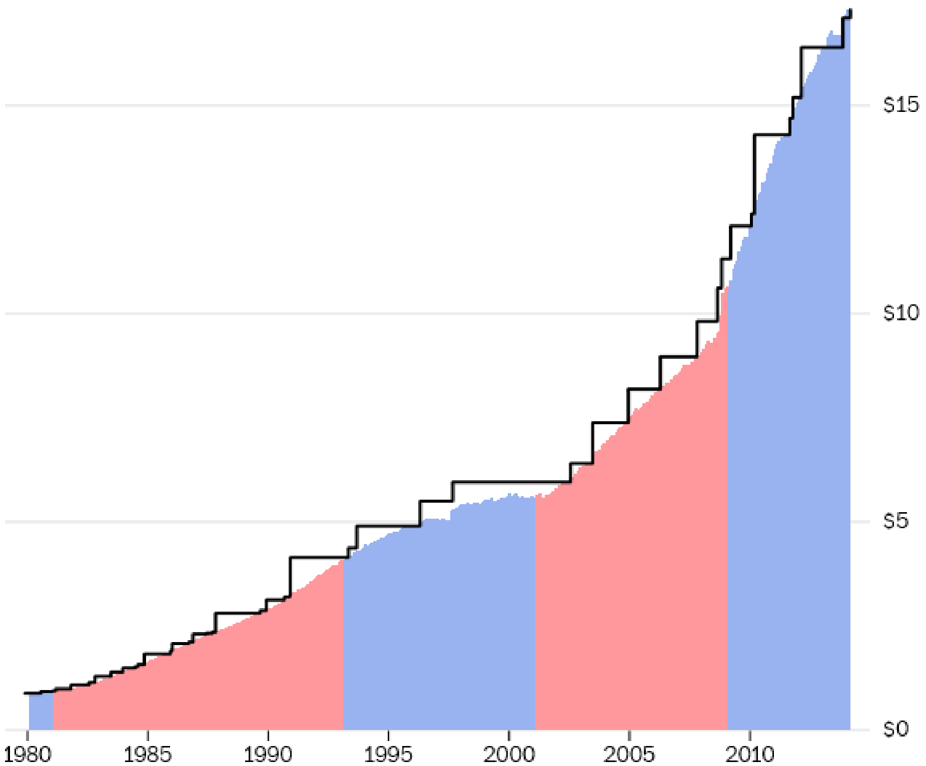
- Front Page Headline, New York Times – "Yellen Sets Unchanged Direction for the Fed. In her initial testimony to the House Financial Services Committee, U.S. Federal Reserve Chairwoman Janet Yellen stated: 'The Fed plans to keep reducing its bond purchases – which have been the crux of its Quantitative Easing (QE) program – unless there was a notable change in the U.S. economy toward a more negative outlook. I served on the Federal Open Market Committee (FOMC) as we formulated our current (monetary) policy strategy and I strongly support that strategy. However, the recovery of the labor market is far from complete and I retain my long standing conviction that the Fed has the power to improve the situation."

Fed Chairwoman Janet Yellen testifies.
Source: Getty Images

WEDNESDAY, FEBRUARY 12TH

- Front Page Headline, Daily Telegraph U.K. – "RBS Warned of Credit Rating Downgrade. Moody's Investors Service reports: 'We have placed the Royal Bank of Scotland's debt on review for a downgrade, noting the bank's regulatory capital position has weakened more than previously anticipated.' On January 27th. RBS disclosed 3.1 billion pounds of extra provisions for issues ranging from its marketing of toxic mortgage-backed securities and payment protection insurance, to the improper issuance of interest rate hedging products. In its statement, Moody's noted: 'The recent announcement by RBS demonstrates that its management faces a number of short-term headwinds, which could challenge the implementation of this plan and in turn be a negative for its creditors."

- Front Page Headline, Bloomberg News – "Senate Votes to Suspend U.S. Statutory Debt Limit for Thirteen Months. By a vote of 55 to 43, the U.S. Senate falls in line with the House by suspending the American statutory debt limit until March 15, 2015. The bill now goes to the White House for President Obama's expected signature. At Long Wave Analytics, we recognize this measure does nothing to alleviate, let alone solve, the U.S. national debt problem. Rather, it just kicks the can down the road yet again, while the national debt clock keeps ticking."



Sources: Congressional Budget Office, U.S. Department of the Treasury

The American national debt's inexorable climb to $17.3 trillion (U.S.). Shaded areas in red indicate a Republican controlled Congress / blue areas indicate Democratic control.

THURSDAY, FEBRUARY 13TH

- Front Page Headline, New York Times – "Italy's Prime Minister Letta Resigns Amid Party Revolt. Italian Prime Minister Enrico Letta, whose weak coalition government has come under increasing criticism, announced his resignation after his own Democratic Party staged a dramatic 136 to 16 insurrection vote to replace him with the party's new leader Matteo Renzi. The Democratic Party is the largest member of Italy's coalition government and Mr. Renzi, at 39 years of age, could become Italy's youngest Prime Minister. Currently the mayor of Florence, Mr. Renzi recently won a nationwide primary to become leader of the Democratic Party. He has a reputation for boldness and has long been considered Italy's most promising young politician. He has spoken repeatedly about the need for sweeping political and economic changes. During a televised Democratic Party meeting today, Mr. Renzi stated: 'Italy is living in a moment of difficulty. We need to offer the possibility to emerge from this morass with a radical (economic) program to relaunch the country."

Matteo Renzi (center).
Source: European Pressphoto Agency

- The Commerce Department reports U.S. retail sales fell by 0.4% in January, citing periods of severe winter weather adversely affected consumers in cities along the Atlantic seaboard and in the Midwest. Guy Berger, an economist at RBS Securities in Stamford, Connecticut, commented: “It’s not looking good for consumer spending. Even if there is some modest improvement in the pace of employment growth, that’s not enough to generate a huge improvement in consumer income.”

- The Labor Department reports U.S. initial claims for state unemployment benefits increased by 8,000 to 339,000 in the week ended February 8th. while continuing claims declined by 18,000 to 2.95 million in the week ended February 1st.

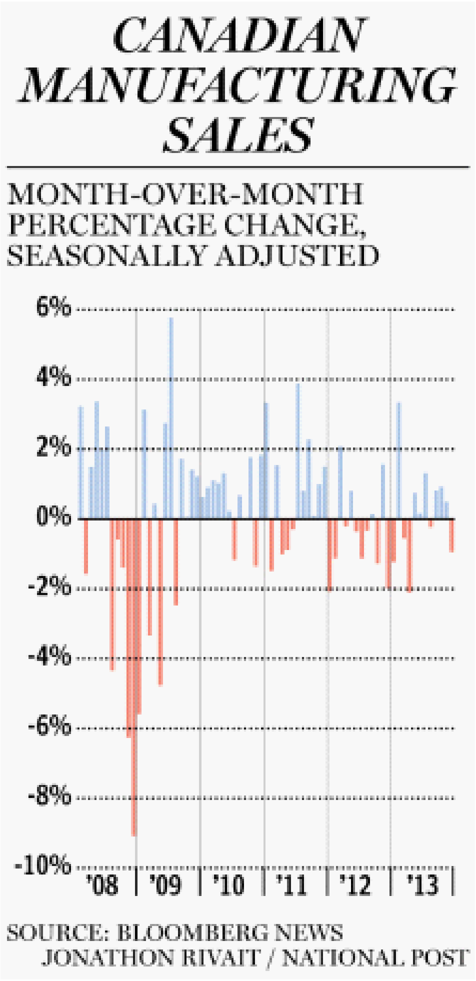
FRIDAY, FEBRUARY 14TH

- The Federal Reserve reports U.S. industrial production fell by a seasonally adjusted 0.3% in January – the biggest decline since April 2013 – citing: “Assembly lines slowed last month as colder weather tempered production, imposing a pause in the momentum of the (manufacturing) industry which has helped bolster the economy. An increase in capital spending and faster hiring—which drives consumer purchases – will be needed to spur production gains.”

- U.S. weapons maker General Dynamics Corp. announces its Canadian subsidiary has won a contract worth up to $13 billion (CAD) to build light armoured vehicles for export. Simultaneously, in a statement, Canadian Trade Minister Edward Fast revealed: “The vehicles will be sold to Saudi Arabia, creating and sustaining 3,000 Canadian jobs annually.” The deal was facilitated through the auspices of the Canadian Commercial Corp. – Canada’s international government-to-government contracting organization. Daniel Deep, a Vice President at General Dynamics Land Systems Canada asserted: “The whole-of-government approach to export sales gives us a strategic advantage as we pursue international markets.”

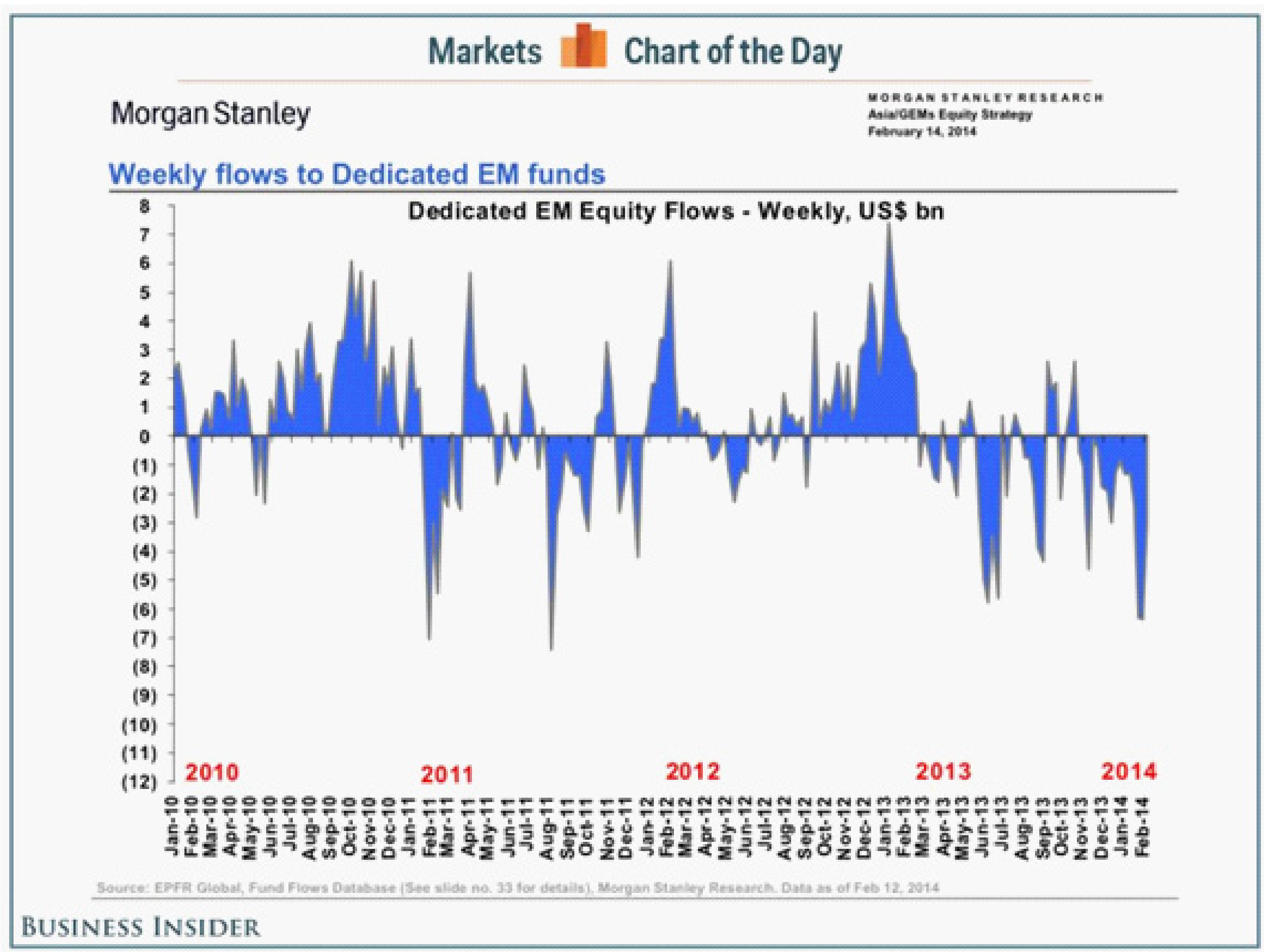
Canada’s Trade Minister Edward Fast.
Source: Bloomberg

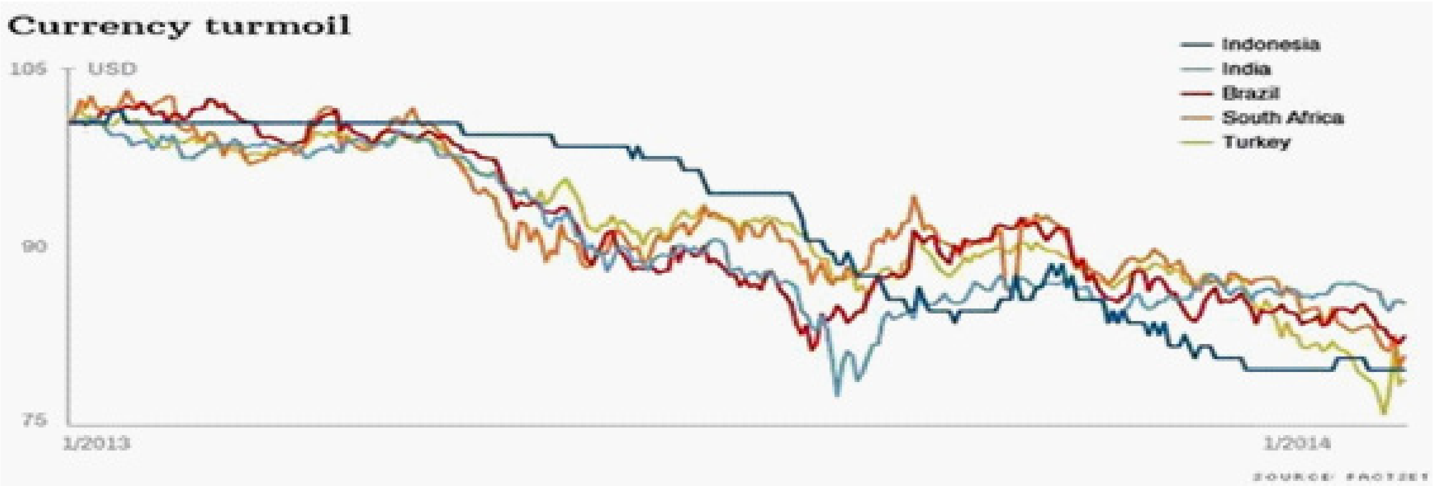
- Statistics Canada reports a decline of 19.4% in the value of production in the country’s aerospace sector led to a 0.9% drop in Canadian factory sales in December on a seasonally adjusted basis; with the volume of sales falling by an even greater 1.9%. Statscan also reported a downwardly revised November factory sales report gain of 0.5%, previously reported as 1.0%.



- Front Page Headline, Business Insider – “Investors Are Exiting From Emerging Markets at Record Pace. According to EPFR Global data, $3.05 billion (U.S.) left dedicated emerging market (EM) funds during the week ended February 12th. This marks the 16th. consecutive week of EM outflows with cumulative transfers totaling $36.6 billion (U.S.). Jonathan Garner, an analyst at Morgan Stanley observed: ‘Another record was set last week when EM funds broke a 2002 record of 14 straight weeks of outflows.’

- According to the Business Insider, the release of the preliminary results of the University of Michigan’s monthly consumer confidence survey revealed that sentiment remained unchanged in February at a reading of 81.2. Ian Shepherdson, chief economist at Pantheon Macroeconomics, commented: “Over a short term (period, consumer) spending and sentiment do not often move in concert, so it is difficult to imagine a robust medium term improvement (in the economy) without higher (consumer) confidence.”





CLOSING LEVELS FOR FRIDAY, FEBRUARY 14TH.		WEEKLY CHANGE
Dow Jones Industrial Average	16,154.39	+ 360.31 points
Spot Gold Bullion	$1,318.60 (U.S.)	+ $55.70 per oz.
S&P / TSX Composite	14,054.76	+ 268.26 points
10-Year U.S. Treasury Yield	2.74%	+ 6 basis points
Canadian Dollar	91.05 cents (U.S.)	+ 0.46 cent
U.S. Dollar Index Future	80.052	– 0.668 cent
WTI Crude Oil Futures	$100.30 (U.S.)	+ $0.42 per barrel

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