Monday June 23rd, 2014

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, June 23rd

The National Association of Realtors (NAR) reports U.S. existing home sales rose by 4.9% in May to an annualized pace of 4.89 million units, the biggest gain since August 2011. Tom Simons, an economist at

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Jefferies LLC in New York observed: “Income levels are improving, mortgage rates are steady and house prices are stabilizing; which all blends into a good picture for home affordability.”

- Markit Economics reports the Purchasing Managers’ Index (PMI) for the euro zone manufacturing and services industries declined to a reading of 52.8 in June from a level of 53.5 in May. Martin van Vliet, an economist at ING Groep NV in Amsterdam, noted: “The pace of the European economic recovery is slowing down. The further weakening of the PMI vindicates the European Central Bank’s decision to implement a further easing of monetary policy.”

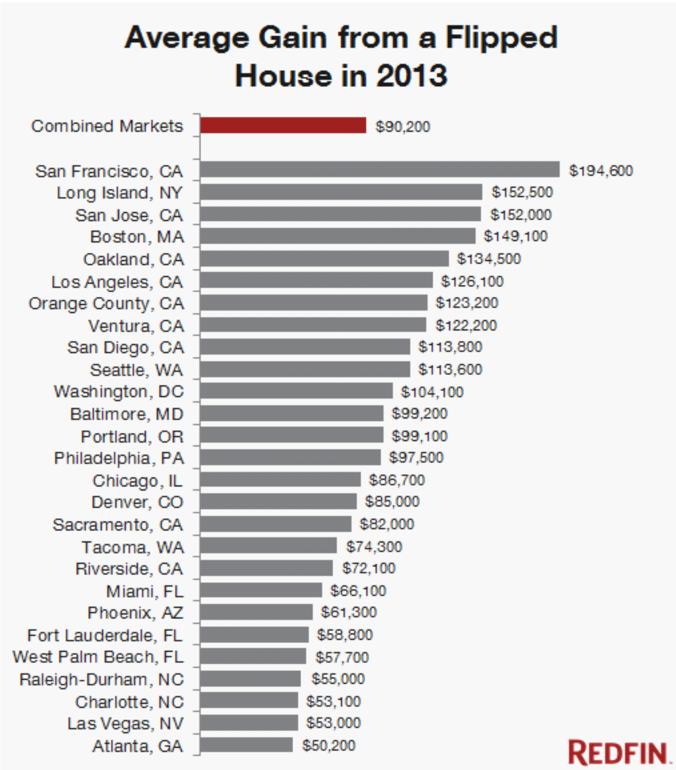
- Markit Economics reports its preliminary Purchasing Managers’ Index (PMI) for U.S. manufacturing in June rose to a reading of 57.5 from a level of 56.4 in May; its highest level in three years. Factory output expanded for the third consecutive month and new orders and employment also increased. The preliminary index is based on 85% to 90% of typical monthly surveys.

- Front Page Headline, Stockman’s Corner – “Why San Francisco Is Flipping For The Fed. Redfin Real Estate reports some stunning figures on profits during 2013 from house flipping in about 30 major U.S. markets … In the combined markets, the average 2013 flip netted a gain of $90,000 (U.S.), or just two times the median household income. However, San Francisco evolved into a league of its own. The average house flipper there gained just under $200,000 (U.S.); representing a better pay day than the total annual earnings of 95% of American households … Moreover, 3.3% residential mortgage rates notwithstanding, San Francisco benefitted in two additional ways. Firstly, in windfalls from the soaring market for social media, biotech and cloud stocks; then a follow-up tsunami of venture capital pursing the next Facebook, Twitter or WhatsApp … Tens of thousands in Silicon Valley are being paid in options gains and venture capital money.

Nevertheless, San Francisco is just the outlier which illustrates the massive deformations caused by the Fed’s financial repression and wealth effects policies. One year flipping gains of $150,000 (U.S.), $125,000 (U.S.) and $125,000 (U.S.) in Boston, Los Angeles and Washington, D.C. respectively, are powerful evidence of the Fed’s folly. See chart on the following page.

TUESDAY, JUNE 24TH

- The Commerce Department reports U.S. new home sales soared by 18.6% in May to an annualized pace of 504,000 units, the biggest monthly gain since January 1992. Robert Dietz, an economist with the National Association of Home Builders cautioned: “We want to see the June and July sales numbers in order to ensure that the upward trend is real; that we have indeed exited a soft patch.”



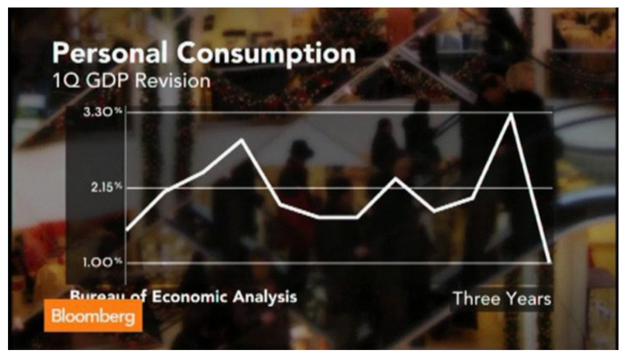
- The New York-based S&P/Case – Shiller group reports its index of property values in 20 U.S. cities rose by 10.8% in April on a year-over-year basis – the smallest 12-month gain in more than a year – following a 12.4% increase in March. Kevin Cummins, an economist at UBS Securities LLC in New York, forecast: "We're still expecting house prices to appreciate, however, at a much reduced pace. The number of homes listed for sale on the market is still relatively low. We're likely to see a more modest pace of price appreciation unfold and we view that as a healthy factor."

- The Conference Board – a New York-based private research group – reports its U.S. consumer confidence index increased to a reading of 85.2 in June, the strongest reading since January 2008, from a level of 82.2 in May. Mark Vitner, an economist at Wells Fargo Securities LLC in Charlotte, North Carolina, noted: "An increasing number of consumers seem to recognize that there's some improvement occurring in the labor market. While it's been modest year-to-date, we're finally beginning to see it reflected in the consumer confidence numbers."

- The Munich-based Ifo Institute reports its German business confidence index declined to a reading of 109.7 in June, following a level of 110.4 in May. In a statement, Ifo President Hans-Werner Sinn commented: "Assessments of the current business climate remained good, but companies were less optimistic about future business developments. The German economy fears the potential impact of the crises in Ukraine and Iraq. Although the export outlook for German manufacturing has clouded over considerably, the majority of manufacturers remain optimistic. Service providers are also more optimistic about future business developments and plan to recruit additional staff."

WEDNESDAY, JUNE 25TH

- The Commerce Department reports the U.S. gross domestic product (GDP) contracted by a revised 2.9% annualized rate in the 1st. quarter – the worst reading since the 1st. quarter of 2009 – citing severe winter weather negatively impacted consumer spending more than previously estimated.



- The Commerce Department reports orders for U.S. durable goods – products such as automobiles and refrigerators designed to last at least three years – declined by a seasonally adjusted 1% in May. However, a closely watched gauge of business investment – orders for non-defense capital goods, excluding aircraft – rose by 0.7% in May, reversing April's decline.

THURSDAY, JUNE 26TH

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 2,000 to a seasonally adjusted 312,000 in the week ended June 21st. while continuing claims increased by 12,000 to 2.57 million in the week ended June 14th.

- Front Page Headline, Armstrong Economics – "International Monetary Fund Advocates Expropriating Pensions and Extending Government Bond Terms to Avoid Existing Maturity Dates. In a new working paper – modified from a December 2013 blueprint – the IMF boldly states: 'The distinction between external debt and domestic debt can be quite important. Domestic debt issued in domestic currency currently offers a far wider range of partial default options than does foreign currency-denominated external debt. Financial repression has already been mentioned; governments can stuff debt into local pension funds and insurance companies and via regulation, force them to accept far lower rates of return than they might otherwise expect.'

In the working paper, there is no discussion whatsoever of reforming the system. The IMF merely suggests sovereign issuers default on savers and expropriate their capital; all the while expecting to be able to access the bond market forever. The fact that this sort of strategy simply cannot work is not even being considered. The IMF maintains that savers' capital should be utilized for debt servicing through sheer force. To reduce a country's enormous national debt, the IMF maintains that government possesses the right to directly usurp the savings of its citizens. Whether in the form of cash savings, investment securities or real estate, the IMF believes about 10% could be expropriated. France's former Finance Minister and now International Monetary Fund Managing Director Christine Lagarde, pictured below, has unfortunately taken leave of her senses in this regard."

FRIDAY, JUNE 27TH

- Front Page Headline, Le Metropole Café – "China's Gold Demand Was Twice the Amount Reported by the World Gold Council. By monitoring gold trade volume on the Shanghai Gold Futures Exchange, Dutch gold research analyst Koos Jansen discovered China's gold demand in 2013 was 2,197 metric tonnes, while the London-based World Gold Council only reported a total of 1,066 metric tonnes. By comparison, the total world mine production was only 2,900 metric tonnes. Moreover, by a series of important official speeches which Jansen had translated into English, he discovered the following official Chinese statements about gold:

1. The state will need to elevate gold to an equal strategic resource as oil and energy; from the whole industry chain to develop industry planning and resource strategies.
2. Individual gold investment demand is an important component of China's gold reserve system; we should encourage individual investment demand for gold.
3. Currently, there are more and more people recognizing the 'gold is useless' story contains too many lies.
4. Gold now suffers from a 'smokescreen' designed by the U.S. which stores 74% of global official gold reserves, to put down other currencies and maintain U.S. dollar hegemony.
5. For the Federal Reserve, it is crucial that the U.S. dollar dominates the world and so the Fed will store gold reserves from countries all over the world, in order to control the gold settlement system.
6. We should achieve the highest gold reserves within the shortest time.

Final confirmation of the accuracy of Koos' data came following the translation of a recent speech by Shanghai Gold Exchange President Xu Luode, who confirmed that China's total gold demand in 2013 exceeded 2,000 metric tonnes, double the official figures of the World Gold Council."

- Front Page Headline, Bloomberg News –"German Gold Reserves Remain in New York. Surging mistrust of the euro during Europe's debt crisis fed a campaign to repatriate Germany's entire $141 billion (U.S.) gold reserves from New York and London. Now, after politics shifted within Chancellor Angela Merkel's coalition, the government has concluded that storing half its gold bullion reserves abroad remains prudent. In a recent Bloomberg interview, Norbert Barthle, the budget spokesman for Merkel's Christian Democratic Union bloc in parliament, noted: 'The Americans take good care of our gold. Objectively, there's absolutely no reason for mistrust.'

The German Bundesbank sent a delegation to the New York Fed's vault in 2012 to audit spot checks on the bullion reserves. As the gold's guardian, the Frankfurt-based Bundesbank is obliged to ensure its safety. The central bank concluded it's sensible to store part of the gold reserves outside the country so they can be swapped more easily for foreign currency in an emergency. Germany's election of last September hastened the shift when the Free Democratic Party, which flirted with bringing the gold reserves home, exited Merkel's coalition and was replaced by the Social Democrats. Other supporters included Philipp Missfelder, a member of Merkel's CDU Party who resigned as her government's envoy for relations with the United States in April. Juergen Hardt, his successor, told reporters in May: 'It's my view that Germany's gold reserves should be stored wherever they might be needed in an emergency."

CDU Member of Parliament Jurgen Hardt.
Photo source: Getty Images

CLOSING LEVELS FOR FRIDAY JUNE 27TH.		WEEKLY CHANGE
Dow Jones Industrial Average	16,851.84	– 95.24 points
Spot Gold Bullion	$1,320.00 (U.S.)	+ $3.84 per oz.
S&P / TSX Composite	15,094.25	– 14.72 points
10 – Year U.S. Treasury Yield	2.53%	– 8 basis points
Canadian Dollar	93.80 cents (U.S.)	+ 0.79 cent
U.S. Dollar Index Future	79.97	– 0.361 cent
WTI Crude Oil Futures	$105.74 (U.S.)	– $1.09 per barrel

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