Monday November 24th, 2014

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, November 24th

The Munich-based Ifo Institute for Economic Research reports its German business climate index – based upon a survey of 7,000 economists – rose to a reading of 104.7 in November from a level of 103.2 in October. Jens-Oliver Niklasch, a fixed income

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strategist at Landesbank Baden-Wuerttemberg in Stuttgart commented: “We see some stabilization in the business confidence index, but we don’t see any reason for enthusiasm at this point. Well known risks to the German economy such as the Ukraine crisis haven’t really receded.”

- Front Page Headline, National Post – “Obama’s Legacy Pursuit Polishes Lame Duck Image. In an op-ed, National Post columnist Matthew Fisher writes: There are ominous parallels in how U.S. President Obama deliberately humiliated Australian Prime Minister Tony Abbott last weekend, publically accusing him of being a laggard on climate change and how the American leader has kept Canadian Prime Minister Stephen Harper waiting at the altar for several years by withholding approval of the XL Keystone crude oil pipeline.

U.S. President Obama between P.M.s Harper (l) and Abbott. Source: AFP

- In both cases, Obama has cavalierly threatened close ties with two of the few countries America has always depended upon when the world has gone berserk. It is part of a feeble, belated attempt by Obama to salvage a slim legacy for his struggling presidency by selecting a few environmental issues to embrace and damn the consequences for his most staunch allies. According to The Australian newspaper’s version of Obama’s snub – a report matched by other media – Obama ignored the advice of his own embassy in Canberra that such a commentary would badly damage relations. Moreover, Obama failed to mention to Abbott his desire to deliver a speech in Australia during several long conversations that the two men had at the APEC leaders’ summit two weeks ago in Beijing, let alone the fact that one of the main themes of the speech would be a blistering criticism of his host. The newspaper reported the Abbott government was only asked to find a place for Obama to speak right before the G20 summit in Brisbane. At that late hour, Obama’s aides specifically asked their hosts to find the president an audience comprised of young people. Ignoring diplomatic protocol when visiting a friendly country, the White House refused to give its hosts a copy of the president’s speech, or even a summary of what it contained.

What Obama did at the University of Queensland was intervene in Australia’s often intense internal debate concerning climate change. Ignoring America’s woeful history on green issues and his own dodgy record in tackling major American pollution emitters like the coal industry, Obama basically accused Australia of not being energy efficient. Then personalizing his attack, Obama said that due to Australia’s bad behavior his two daughters and

his future grandchildren might one day be unable to enjoy the wonders of the Great Barrier Reef. It was vintage Obama, with the president genially oozing sentimentality and concern about the reef and about the coal mines which provide Queensland with much of its wealth; offering the prediction that this would lead to 'longer droughts and more wild fires.' Of course, the youngsters whom the president addressed were bedazzled by the preening super star in their midst …while the Abbott government was left fuming about their visitor's insults. Speaking from New York, Australian foreign minister Julie Bishop rebuked Obama for not understanding what Australia had done to safeguard the Great Barrier Reef.

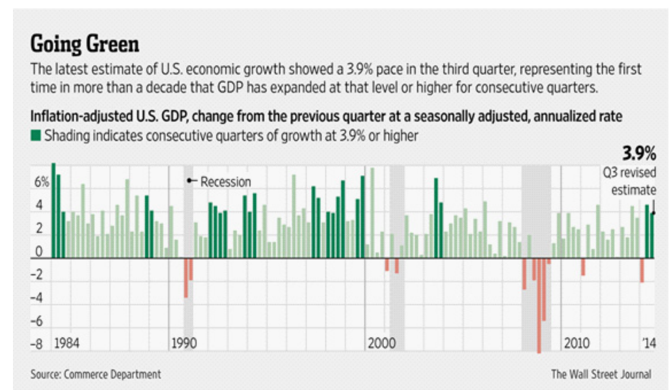
The uproar surfaced only weeks after Australia was among the first nations to answer an American urgent appeal to rush fighter jets to the Middle East (with Canada not far behind) to help confront terrorism perpetrated by ISIS. Grandstanding about the Great Barrier Reef and the XL Keystone pipeline – which Obama also took a few gratuitous swipes at during his trip to Australasia – must have played with the relatively small, but supremely well-funded environmental lobby at home. In attacking the XL pipeline as something which is only good for Canada, the president ignored the fact that the majority of American voters and elected politicians support the project because of its importance to their northern neighbours; plus it offers the U.S. and its allies energy security by reducing their dependence upon oil and gas from Russia and the Middle East. As the Washington Post concluded last Wednesday, Obama made so many factual errors when talking about the Canadian pipeline during his trip, the Post awarded him three Pinocchios."

- Front Page Headline, Times of London – "Debt Levels Dampen Hopes of GDP Growth: BOE. Andy Haldane, the Bank of England's chief economist warns: 'Global gross domestic product growth could be soggy for years because of the high levels of debt still on the balance sheets of both households and governments. The lingering stockpile of debt from the financial crisis is acting as a headwind to economic growth. In general, confidence has been hit hard, deterring businesses from making investments and taking risks." See also, Economic Winter, It's Still the Debt, Stupid – March 21, 2014.

BOE Chief Economist Andy Haldane. Source: Times of London

TUESDAY, NOVEMBER 25TH

- The Commerce Department reports U.S. gross domestic product (GDP) rose by an upwardly revised 3.9% in the 3rd. quarter, previously reported as 3.5%, citing a higher level of spending by consumers and corporations. Chris Rupkey, an economist at Bank of Tokyo-Mitsubishi in New York observed: 'American businesses seem to have a fairly good reading of consumer demand for their goods and services. They would not be ordering additional equipment if they did not think the consumer was going to be spending down the road for them.'



- The S&P Case / Shiller group report their index of property values in 20 U.S. cities rose by 4.9% in September on a year-over-year basis, following an annual increase of 5.6% at the end of August. Thomas Simons, an economist at Jefferies LLC in New York commented: 'We're witnessing a housing market that's slightly healthier and isn't subject to boom-bust cycles. I view the market as generally being in the process of stabilizing.'

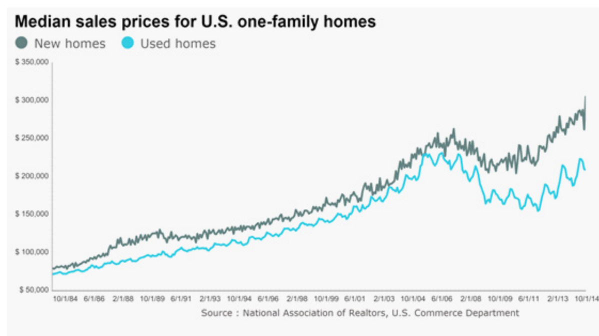
- Front Page Headline, Globe and Mail – "Bank of Canada Likely to Raise Bank Rate in May 2015: OECD. In its semi-annual Economic Outlook, The Organization for Economic Co-operation and Development argues: 'Canada's low and economically stimulative 1% Bank Rate will need to be gradually withdrawn to counter inflationary pressures as the domestic economy grows toward its full output capacity. In this projection, it is assumed that the first monetary policy Bank Rate increase will occur in May of 2015 and that administered interest rates will rise steadily thereafter.' However, in a conference call with reporters, OECD Chief Economist Catherine Mann cautioned: 'If some countries are waiting for U.S. import demand to lift their economies, we're not there for them.' With which country does the OECD think Canada does over 70% of its trade?

- Statistics Canada reports the nation's retail sales increased by 0.8% to $42.8 billion (CAD) in September, citing higher sales of big-ticket items such as automobiles, furniture and appliances. September retail sales were also 4.5% higher on a year-over-year basis.

- The New York-based Conference Board reports its consumer confidence index declined to a reading of 88.7 in November, following a level of 94.1 in October. David Kelly, a strategist at JP Morgan Funds in New York, noted: 'This month's decline doesn't change our view that the overall trend in consumer confidence is moving higher. Gasoline prices are lower, the official unemployment rate is down, home prices are gradually increasing and stock prices are certainly rising.'

WEDNESDAY, NOVEMBER 26TH

- The Commerce Department reports U.S. new single-family home prices sprinted higher in October, with the median sales price reaching $305,000 (U.S.), indicating costs far outpacing those for existing homes. Separately, the National Association of Realtors (NAR) reported the median price for an existing single-family home reached $208,700 in October, up by 6% on a year-over-year basis. In a research note, Jay McCanless an analyst at Sterne Agee – a Birmingham, Ala.-based wealth manager – noted: "This price breakout to the upside reinforces our view that upgrading and luxury buyers remain the most eligible new single-family home buyers prevalent in the U.S. market."



- The Labor Department reports U.S. initial claims for state unemployment benefits increased by 21,000 to 313,000 in the week ended November 22nd. while continuing claims declined by 17,000 to 2.32 million in the week ended November 15th., the fewest since December 2000.

- The National Association of Realtors (NAR) reports its U.S. index of pending sales of existing homes declined by 1.1% to a reading of 104.1 in October, but up by 2.2% on a year-over-year basis. Ian Shepherdson, chief economist at Pantheon Macroeconomics noted: "This pending home sales report provides yet more evidence that the trend in American housing activity is flat."

- The Commerce Department reports although U.S. durable goods – those expected to last at least three years – orders rose by 0.4% in October, but once the volatile transportation orders are extracted, orders declined by 0.9%. Gennadiy Goldberg, an analyst at TD Securities, commented: "October's durable goods report reflects companies' increased uncertainty about the impact of slower global gross domestic product (GDP) growth and a stronger U.S. dollar on their demand outlook, leaving many to approach capital expenditure plans with increased caution."

- According to a final reading of the University of Michigan, its consumer confidence index over the course of November declined to a final reading of 88.8 from the preliminary reading of 89.4.

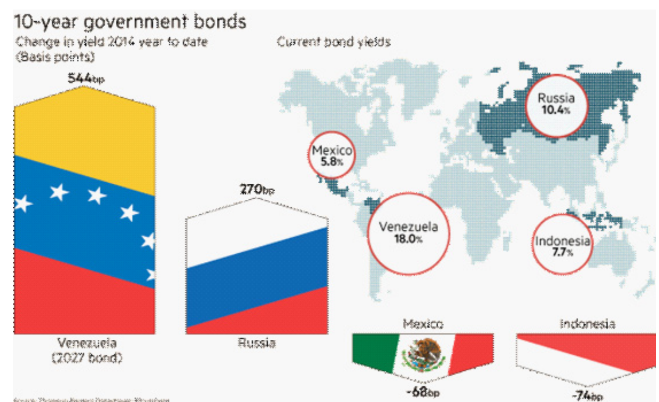
THURSDAY, NOVEMBER 27TH

Thanksgiving Holiday in the United States

- The Nuremberg-based Federal Labour Agency reports the number of people out of work declined by a seasonally adjusted 14,000 to 2.87 million in November, while the official unemployment rate declined to 6.6%, marking the lowest level in over two decades.

- Statistics Canada reports the nation's current account deficit narrowed to $8.4 billion (CAD) in the 3rd. quarter, the best performance in six years.

- Front Page Headline, Financial Times – "The Good, the Bad and the Ugly of Emerging Market Debt.



In a Financial Times op-ed, columnist Elaine Moore writes: Emerging markets have endured a torrid year in many ways. A smouldering ceasefire between Ukraine and Russia is threaten-

ing to escalate into a full-blown war, violence is growing along the borders of Iraq and Syria and the Ebola epidemic has claimed the lives of more than 5,000 people in West Africa.

According to the International Monetary Fund (IMF), the effects can be felt in gross domestic product (GDP) numbers. GDP growth in emerging markets has declined from highs of 6% and 7% a few years ago to about 4.4%. Painful economic pressure points are also being triggered as commodity prices drop, China's economy slows down and the U.S. dollar strengthens. In spite of this, however, emerging market debt issuance has been on a roll and the JP Morgan / EMBI Global Hedged Index is up by almost 8%. As loose monetary policies designed to boost GDP growth in developed economies continue to send money racing around the globe in search of yield, 2014has in fact been a good year for some emerging market borrowers.

The Good

Mexico has been the darling of many emerging market investors this year, boasting one of the world's longest dated bond issues and hailed as an innovator for its embrace of new 'anti-vulture' fund bond clauses. Marc Chandler, global director of currency at BBH Global Currency believes the continued economic growth of the U.S. should boost Mexico's level of competitiveness. Earlier this year, Mexico floated a new issue of $2 billion (U.S.) 10-year bonds at a yield of 3.68%, representing a spread of 135 basis points over comparable U.S. Treasurys; despite the fact that Mexico's sovereign credit rating was lower than the average for an investment grade rating. Mark Baker, director of emerging market fixed-income investment at Standard Life Investments, observed: 'Despite a lack of stellar GDP growth, political reform has endeared the credits of India and Indonesia to investors. While the economic fundamentals are not much improved, the prospect of reform means market sentiment has turned and that's why the rupee became one of the top performing currencies against the U.S. dollar this year.' Erik Neilsen, chief economist at Unicredit, cites while GDP growth in central Europe has performed relatively well this year; as the economic recovery in the euro zone stagnates, investor attitudes towards emerging Europe have turned, with yield spreads of Turkish 10-year bonds against U.S. Treasurys having narrowed from 320 basis points in January to 175 basis points today.

Finally, Africa has been home to more debuts on international capital markets than any other region this year; plus it has received huge investor orders for new debt. This week, Kenya returned to the bond market less than six months after it floated its first U.S. dollar-denominated bond issue, tapping investors for an additional $500 million (U.S.) - $750 million (U.S.) at a lower yield level than its previous issue.

The Bad

With commodity prices falling, it has been a gloomy year for commodity exporters in Asia, Latin America and Africa, however, of all the countries affected two stand out: Brazil and Russia. Elections in Brazil resulted in a win for Dilma Rousseff, who was not the preferred candidate of investors. High inflation, weak economic growth and a lack of the sort of reforms that markets prefer, have led to a sell-off in Brazilian sovereign debt issues this year. In Russia, economic problems have been exacerbated by foreign sanctions following the annexation of Crimea. Craig Botham, an emerging markets economist at Schroders, commented: 'The Russian outlook was already grim, since there was virtually neither any economic growth, nor the prospect of any GDP growth drivers. Now that oil prices are falling and sanctions have been imposed, it's looking even worse.'

Investors are growing increasingly concerned about refinancing because Russia remains all but cut off from the capital markets. A recent foray into the domestic bond market resulted in the treasury issuing less than one tenth of the amount offered. One banker noted that Russian companies and banks appear to have enough assets to cover refinancing for one year. After that, things will become ugly. Alarm at these increased risks has pushed up yields for Russian debt and sent 5-year credit default swaps – which measure the cost of insuring Russian debt against default – up to a three year high.

The Ugly

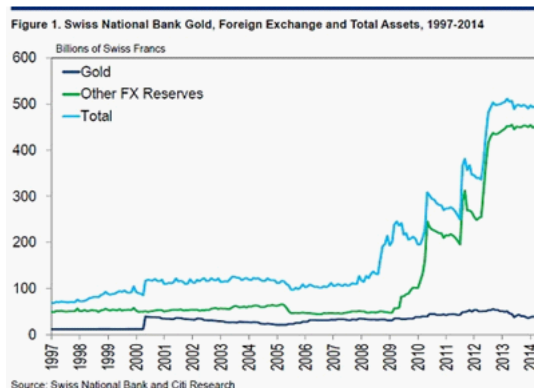
This year, for Ukraine, Argentina and Venezuela, the global debt market has been a house of horrors. Ukraine is leaning on a huge injection of funding from external lenders, including the International Monetary Fund (IMF), and fears are growing for its solvency as tensions increase with Russian-backed separatists in the east. The Russian economy is expected to contract by more than 7% this year and the ruble has lost about half of its value to date in 2014. Argentina remains entirely shut out of bond markets following its second default in 13 years, after a New York judge ruled in favour of investors who hold defaulted debt and who have sued for full repayment. Yet, it is Venezuela's bond yields that look worst of all. The yield spread between U.S. 20-year Treasurys and comparable Argentinian issues is about 750 basis points; while the equivalent yield spread for Venezuelan bonds is about double that. Mr. Baker observed: 'Without prior knowledge, one would think that Venezuela is in

default and not Argentina. However, that yield spread anomaly is driven by the idea that elections in Argentina will precipitate an end to the dispute with bondholders, but we're not so sure."

- Front Page Headline, Daily Telegraph U.K. – "Save Our Swiss Gold Vote.

Source: Daily Telegraph

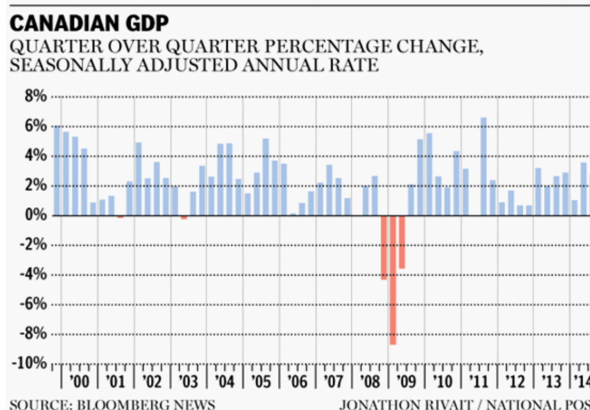
In an op-ed, International Business Editor Ambrose Evans-Pritchard writes: Five million Swiss voters will decide on Sunday whether to force the Swiss National Bank (SNB) to repatriate all of its gold from vaults in Britain and Canada, boost its holding of bullion to 20% of foreign reserves and then keep the gold forever. The 'Save Our Swiss Gold' is a valiant attempt by Switzerland's army of gold bugs – and the populist Swiss People's Party (SVP) – to lead the world back to the halcyon days of the international Gold Standard. It is a primordial scream against quantitative easing (QE) and money creation a l'outrance by the leading central banks. Yet there is a snag. The SNB is the biggest printer of them all in relative terms, far outstripping the Bank of Japan, let alone the U.S. Federal Reserve or the Bank of England who are mere amateurs at this game. The SNB has boosted its balance sheet to a colossal 83% of GDP in a maniacal – but fully justified – effort to prevent the Swiss franc from appreciating beyond 1.20 to the euro and to forestall deflation. The SNB vowed to print whatever was necessary to buy foreign bonds and defend the exchange rate. It has been true to its word since 2011. At one stage it was mopping up half of the entire sovereign bond issuance of the euro zone each month, a scale of action that the European Central Bank's Mario Draghi can only dream about. During the euro zone debt crisis, Standard & Poor's even accused the SNB of becoming a conduit for capital flight, via Switzerland, to German, Dutch and French bonds, thereby indirectly exacerbating Euroland's north / south rift.



The result of this buying blitz is that the SNB now has a balance sheet of 522 billion francs. Only 7.5% of this is in gold, some 1,040 metric tonnes. The SNB must purchase 1,733 metric tonnes to reach the 20% target mandate by 2019 if the vote passes. Gold bulls are snorting. The world's annual mine output is roughly 2,500 metric tonnes … The SNB might be able to persuade a friendly central bank to sell a few crates, but last year the central banks were net buyers. Led by Russia and other BRICS states, they purchased 367 metric tonnes."

FRIDAY, NOVEMBER 28TH

- Statistics Canada reports the nation's gross domestic product (GDP) rose by a seasonally adjusted 2.8% in the 3rd. quarter, slightly lower than the upwardly revised 3.6% rate in the 2nd. quarter, previously reported as a gain of 3.1%. Paul Ferley, an economist at RBC Economics, noted: 'Although GDP growth in the 3rd. quarter slowed relative to the 2nd. quarter, it still represented the economy maintaining its above potential pace of activity.'



- Front Page Headline, Business Insider – "U.S. Household Debt Surges Higher. According to the New York Federal Reserve's latest Household Debt and Credit report, America's household debt increased by $78 billion (U.S.) to $11.71 trillion (U.S.) in the 3rd. quarter, up from $11.62 trillion (U.S.) in the 2nd. quarter. Wilbert van der Klaauw, an economist at the New York Fed, elaborated: 'Outstanding household debt, led by increases in auto loans, student loans and credit card balances, has trended steadily upward over recent quarters. In light of these data, it appears that the deleveraging period has come to an end and households are borrowing once more.'
  Some highlights of the Fed's 3rd. quarter report include:

  1. Mortgage debt rose by $35 billion (U.S.) to $8.13 trillion (U.S.).

  2. Student loan debt rose by $8 billion (U.S.) to $1.13 trillion (U.S.). Approximately, 11.1% of aggregate student loan debt is more than 90 days delinquent, or in default.

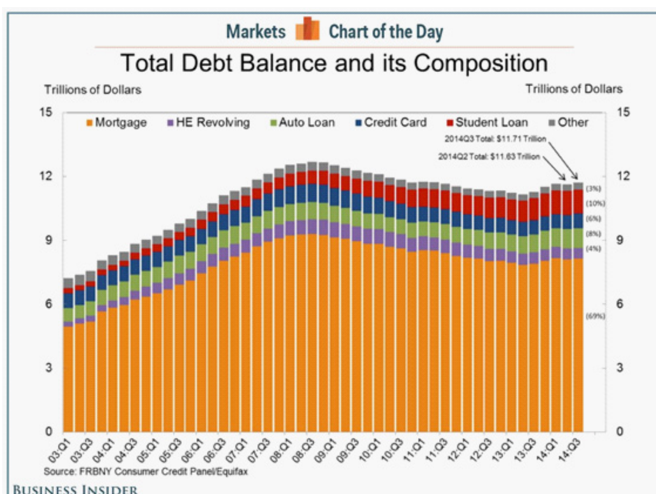
  3. Auto loan balances rose by $29 billion (U.S.) while the delinquency rate on auto loan debt fell to 3.1% from 3.3% in the 2nd. quarter.

  4. Home equity lines of credit declined by $9 billion (U.S.) to $512 billion (U.S.).

  5. Non-housing debt balances increased by 1.7%.

  6. Overall, delinquency rates were roughly flat, with 6.3% of all outstanding debt at some stage of delinquency, compared to 6.2% in the 2nd. quarter.

- The chart below illustrates the various components of America's household debt mountain.



- Front Page Headline, GoldMoney - "Russia's Monetary Solution. The successful remonetization of gold by a major power such as Russia would draw attention to the fault lines between fiat currencies issued by governments unable, or unwilling, to do the same and those which can follow in due course. It would mean a schism in the world's dollar-based monetary order. Russia has made plain her overriding monetary objective: to do away with the U.S. dollar for all her trade, an ambition Russia shares with China and their Asian partners. Furthermore, over the short term, the rouble's weakness is undermining the Russian economy, not only by forcing the Central Bank of Russia (CBR) to raise administered interest rates much higher in order to defend the currency, but also, by increasing the burden of foreign currency debt. There is little doubt that one objective of NATO's economic sanctions is to disrupt the Russian economy by undermining the currency and this policy is working, with the rouble having declined by 30% v/s the U.S. dollar this year to date and the prospect of more declines ahead.

  Russia faces the reality that pricing the rouble in U.S. dollars through the foreign exchanges leaves her a certain loser in a currency war against America and her NATO allies. There is a solution which was suggested in a recent article by John Butler of Atom Capital, which is for Russia to link the rouble to gold, or more correctly, put it on a gold exchange standard.* At first blush, the proposal is so left-field that it takes a lateral thinker such as Butler to propose it. Separately, Professor Steve Hanke of John Hopkins University has alternatively proposed that Russia establish a currency board in order to stabilize the rouble. Professor Hanke points out that Northern Russia tied the rouble to the British pound with great success in 1918 following the Bolshevik revolution, when Britain and other allied nations invaded and briefly controlled the region. What Professor Hanke didn't say is that sterling would most likely have been accepted as a gold substitute in the region at that time, so establishing a currency board was the equivalent of having the rouble on a gold exchange standard in Russia's occupied lands.

  Professor Hanke has successfully advised several governments to establish currency boards over the years, but we can probably rule it out as an option for Russia because of her desire to avoid U.S. dollar relationships. However, upon further examination, Butler's idea of fixing the rouble to gold is certainly feasible. Russia's public sector external debt is the equivalent of only $278 billion (U.S.) in a $2 trillion (U.S.) economy; her foreign exchange reserves total $429 billion (U.S.) of which over $45 billion (U.S.) is in physical gold and the budget deficit this year is likely to be about $10 billion (U.S.), considerably less than 1% of GDP. These relationships suggest that a rouble to gold ex-

change standard could work as long as fiscal discipline is maintained and credit expansion moderated. Once an exchange rate is set, the Russians would not be restricted to just buying and selling gold to maintain the rate of exchange. The CBR also has the power to manage rouble liquidity and as John Butler points out, it can issue coupon-bearing bonds to the public which would be attractive compared with holding cash roubles. By issuing these bonds, in effect the public will be offered a yield linked to gold, but higher than gold's interest rate indicated by the gold lease rates in the London market.

Therefore, as the sound money environment becomes established, the public will adjust its financial affairs around a considerably lower interest rate than the current 9.5% - 10% level, but in the context of sound money, it must always be repaid. Obviously, the CBR would have to monitor bank credit expansion in order to ensure that lower interest rates do not result in a dangerous increase in bank lending and jeopardize the arrangement. In short, the central bank could easily counter any tendency for roubles to be cashed in for gold by withdrawing roubles from circulation and by restricting credit. Consideration would also have to be given to roubles in foreign ownership, but the current situation for foreign owned roubles is favourable as well. Speculators in foreign exchange markets are likely to have sold the rouble against U.S. dollars and euros because of the Ukrainian situation and as a play on lower oil prices. Therefore, the announcement of a gold exchange standard can be expected to lead to foreign demand for the rouble from foreign exchange markets because these positions would almost certainly be closed. Currently, since demand is low for physical gold in western capital markets, longer-term foreign holders of roubles are unlikely to swap them for gold; preferring to sell them for other fiat currencies. So, now could be a good time to introduce a gold-exchange standard. The greatest threat to a rouble gold parity would probably arise from bullion banks in London and New York buying roubles to submit to the CBR in return for bullion to cover their short positions in the gold market. This would be eliminated not only, by regulations restricting gold for rouble exchanges to legitimate import-export business, but also by permitting the issuance of roubles against bullion for non-trade related transactions and not the other way around. So, we can see that the management of a gold exchange standard is certainly possible. That being the case, the rate of exchange could be set at close to current prices, perhaps 60,000 roubles per troy ounce. Instead of intervention in currency markets, the CBR should use its foreign currency reserves to build and maintain sufficient gold to comfortably manage the rouble-gold exchange rate. As the rate becomes established, it is likely that the gold price itself will stabilize against other currencies and probably rise as it becomes remonetized. After all, Russia has some $380 billion (U.S.) in foreign currency reserves, the bulk of which can be deployed by buying gold.

This equates to almost 10,000 metric tonnes of gold at current prices, to which can be added future foreign exchange reserves from energy exports. Moreover, if other countries begin to follow Russia by establishing their own gold exchange standards, they will likewise be sellers of U.S. dollars for gold. The rate of increase in the cost of living for the Russian population should begin to drop as the rouble stabilizes, particularly for life's essentials. This has powerfully positive political implications compared with the current pain of food price inflation of 11.5%. Over time, domestic savings would grow, spurred by low welfare provision by the state, long-term monetary stability and low taxes. This is the ideal environment for developing a strong manufacturing base, as Germany's post-war experience clearly demonstrated, but without her high welfare costs and associated taxation.

Western economists schooled in demand management will think it madness for the central bank to impose a gold exchange standard and to forfeit the facility to expand the quantity of fiat currency at will. However, they are ignoring the empirical evidence of a highly successful Britain which similarly imposed a gold standard in 1844. They simply don't understand that monetary inflation creates uncertainty for capital investment and destroys the genuine savings necessary to fund it. Instead, they have bought into the fallacy that economic progress can be managed by debauching the currency and ignoring the destruction of savings.

They commonly assume that Russia needs to devalue her costs in order to make energy and mineral extraction profitable. Again, this is a fallacy exposed by the experience of the 1800s, when all British overseas interests, which supplied the Empire's raw materials, operated under a gold-based sterling regime. Instead, by not being burdened with unmanageable debt and welfare costs, by maintaining lightly-regulated and flexible labour markets and by running a balanced budget, Russia can easily lay the foundation for a lasting Eurasian empire by embracing a gold exchange standard; because like Britain post the Napoleonic Wars, Russia's future is about new opportunities and not preserving legacy industries and institutions.

That in a nutshell is the domestic case for Russia to consider such a step; but if Russia seizes this window of opportunity to establish a gold exchange standard there will be ramifications for her economic relationships with the rest of the world, as well as geopolitical considerations to take into account. An impor-

tant advantage of adopting a gold exchange standard is that it will be difficult for western nations to accuse Russia of a desire to undermine the U.S. dollar-based monetary system. After all, President Putin was more or less told at the Brisbane G20 meeting, from which he departed early, that Russia was not welcome as a participant in international affairs and the official Fed line is that gold no longer plays a role in monetary policy.

However, by adopting a gold exchange standard, Russia is almost certain to raise fundamental questions about the other G20 nations' approach to gold and to set back western central banks' long-standing attempts to demonetize it. It could mark the beginning of the end of the U.S. dollar-based monetary system by driving currencies into two camps: those which can follow Russia into a gold standard and those which cannot or will not. The likely determinant would be the level of government spending and long-term welfare liabilities, because governments which leech too much wealth from their populations and face escalating welfare costs will be unable to meet the conditions required to anchor their currencies to gold. Into this category we can put nearly all the advanced nations, whose currencies are predominantly the U.S. dollar, Japanese yen, British pound and European euro. Other nations without these burdens and enjoying low tax rates have the flexibility to set their own gold exchange standards should they wish to insulate themselves from a future fiat currency crisis. It is beyond the scope of this article to examine the case for other countries, but likely candidates would include China, which is working towards a similar objective. Of course, Russia might not be actively contemplating a gold standard, but Vladimir Putin is showing every sign of rapidly consolidating Russia's political and economic control over the Eurasian region, while turning away from America and Western Europe.

The fast-track establishment of the Eurasian Economic Union, domination of Asia in partnership with China through the Shanghai Cooperation Organization, plus plans to establish an alternative to the SWIFT banking payments network are all testaments to this. Therefore, it would be negligent to rule out the one step that would put a stop to foreign attempts to undermine the rouble and the Russian economy: by moving the currency war away from the foreign exchanges and into the physical gold market where Russia and China hold all the aces."

* Technically, a gold standard is a commodity money standard in which the commodity is gold, deposits and notes are fully backed by gold and gold coins circulate. A gold exchange standard permits other metals to be used in coins and for currency and credit to be issued without the full backing of gold, so long as they can be redeemed for gold from the central bank on demand.

CLOSING LEVELS FOR FRIDAY, NOVEMBER 28TH.		WEEKLY CHANGE
Dow Jones Industrial Average	17,828.24	+ 18.18 points
Spot Gold Bullion	$1,175.50 (U.S.)	– $22.20 per troy oz.
Spot Silver	$15.56 (U.S.)	– $0.85 per troy oz.
S&P / TSX Composite	14,744.70	– 366.61 points
10 – Year U.S. Treasury Yield	2.16%	– 15 basis points
Canadian Dollar	87.41 cents (U.S.)	– 1.50 cents
U.S. Dollar Index Future	88.219	– 0.06 cent
WTI Crude Oil Futures	$66.15 (U.S.)	– $10.36 per barrel
DJIA / Gold Ratio	15.17	+ 0.30 point
Gold / Silver Ratio	75.55	+ 2.565 points

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

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