Monday December 29th, 2014

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

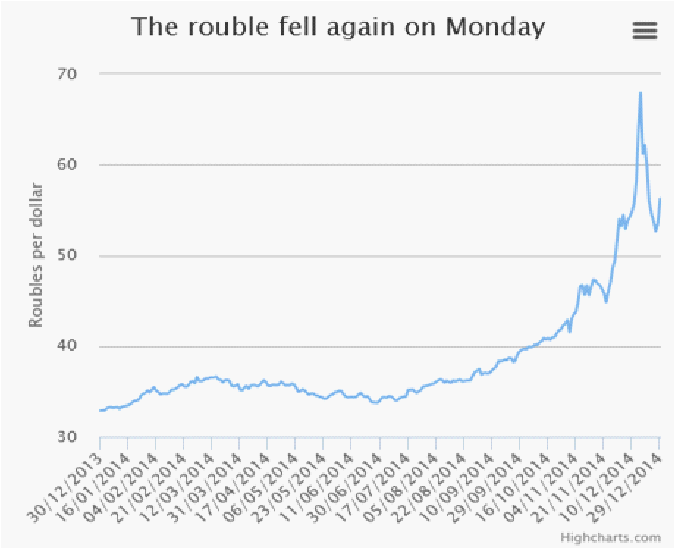
THAT WAS THE WEEK THAT WAS

Monday, December 29th

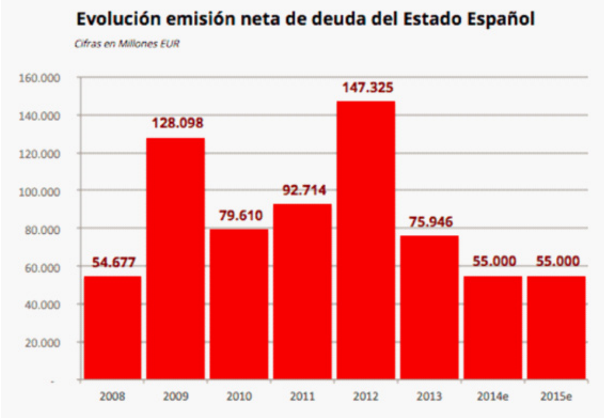
The Economy Ministry reports Russia's gross domestic product (GDP) contracted by 0.5% in November – the first decline since 2009 – following a gain of 0.5% in October, citing a drop in manufacturing and investment activity, as the ruble fell to a record low

MONDAY, DECEMBER 29TH

against the U.S. dollar and the price of crude oil remained weak. Dmitry Polevoy, an economist at ING Groep NV in Moscow, commented: "GDP dynamics will probably worsen next year, feeding the already pessimistic expectations over the prospects for the Russian currency. A positive contribution of net exports can't compensate for a contraction of domestic demand and a deeper decline in investment."



- Front Page Headline, Mish's Global Economic Trend Analysis – "Spain to Issue 55 Billion Euros of New Debt. El Economista reports: 'About 72% of this amount will be for regional governments and municipalities. Since 2008, Spain's debt is 600 billion euros higher and the 10-year government bond yield currently stands at 1.67% v/s 2.25% for U.S. Treasurys."



Every Net Debt Issuance of the Spanish State. In Millions of Euros Source: Guru Huky

TUESDAY, DECEMBER 30TH

- The S&P/Case Shiller group reports their composite index of house prices for 20 U.S cities declined slightly by 0.1% in October, while rising by 4.5% on a year-over-year basis – the slowest annual pace in two years – following a revised pace of 4.8% in September. David Blitzer, chairman of the index committee at S&P Dow Jones Indicies, commented: "Following a long period of rising house prices – but at a slower pace with each passing month – we are seeing a price trend which could end 2014 on a firm note and hint at some acceleration into 2015.”

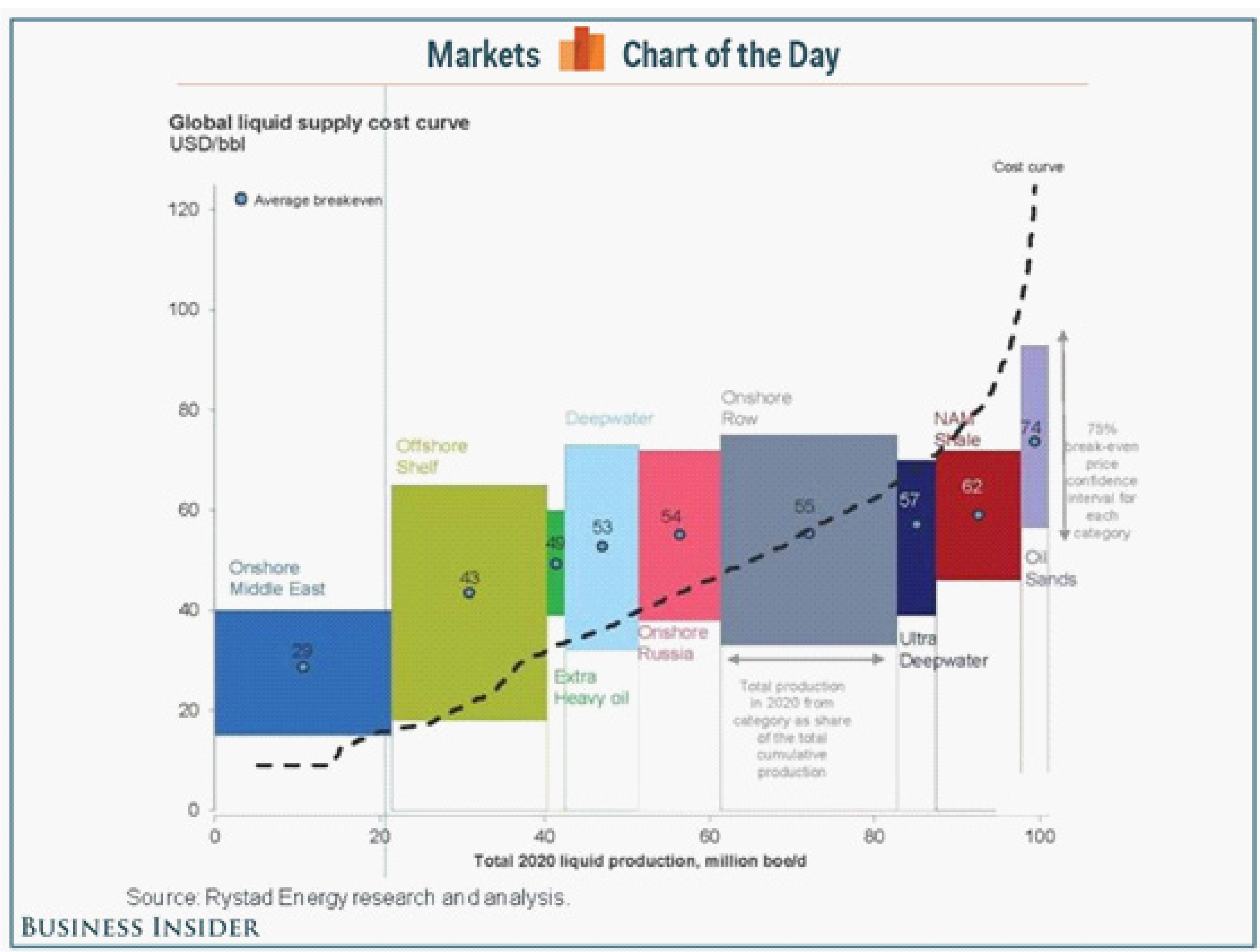
- The New York-based Conference Board, a private research group, reports its consumer confidence index rose to a reading of 92.6 in December from an upwardly revised level of 91 in November, previously reported as 88.7. Lynn Franco, director of economic indicators at the Conference Board, noted: ‘Consumer confidence rebounded modestly in December, propelled by a considerably more favourable assessment of current economic and labor market conditions.’

- Front Page Headline, Bloomberg News – “This Era of Cheaper Oil Is Different: El-Erian. In a Bloomberg op-ed, Mohamed El-Erian, chief economic adviser at Allianz SE, warns: ‘The world is currently experiencing much more than a temporary dip in oil prices. Due to a change in the supply model, this is a fundamental shift that will likely have long lasting effects.”

WEDNESDAY, DECEMBER 31ST

- The Labor Department reports U.S. initial claims for state unemployment benefits increased by 17,000 to 298,000 in the week ended December 27th. from a revised 281,000; while continuing claims declined by a seasonally adjusted 53,000 to 2.35 million in the week ended December 20th. close to a 14-year low.

- The National Association of Realtors (NAR) reports its index of U.S. pending home sales rose to a seasonally adjusted reading of 104.8 in November from a level of 104 in October. An index reading of 100 equals the average contract activity level in 2001. Lawrence Yun, NAR’s chief economist, commented: “With rental rates now reaching a 7-year high, historically low mortgage rates and moderating home prices, more potential home buyers could be enticed to enter the market in the months ahead.”

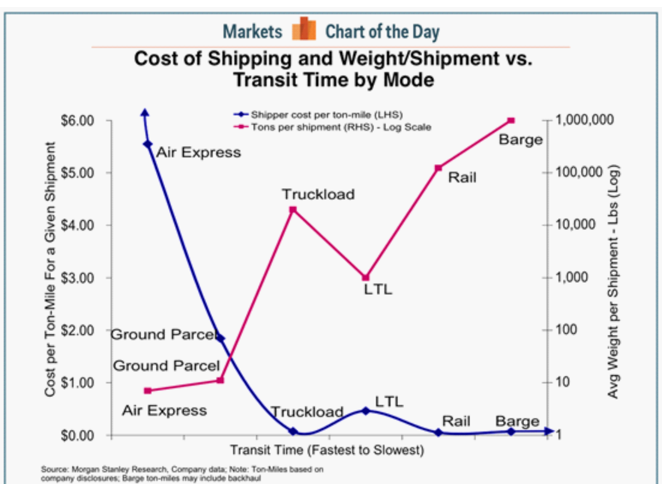


- The HSBC Holdings Plc and Markit Economics group reports their purchasing managers' index (PMI) for China's manufacturing sector declined to a final reading of 49.6 in December from a level of 50 in November – a 7-month low – citing industrial overcapacity, factory gate deflation and a housing slump. A reading below 50 indicates contraction.

- The Institute for Supply Management (ISM) reports its Chicago purchasing managers' index(PMI) for the manufacturing sector– a regional leading economic indicator – declined to a reading of 58.3 in December, a five-month low, from a level of 60.8 in November; citing lower levels of production as well as new orders.

THURSDAY, JANUARY 1ST
NEW YEAR'S DAY HOLIDAY

- Front Page Headline, Business Insider – "The Impact of Lower Fuel Prices on Freight Shipping. A Morgan Stanley research note provided to the Business Insider includes a fascinating chart comparing speed, price and volume for various types of freight transportation. Air express and ground parcel services while extremely fast, are also very expensive. Meanwhile, individual shipments on these modes tend to be comparatively small: a freight airplane can carry just a few tons of cargo, while a giant barge can carry nearly twenty thousand 20-foot-long containers. Full truckloads and less-than-full truckloads (LTL) are slower but vastly cheaper and with a higher capacity than the two faster freight options. While trains and ships are very cheap with very high capacities, they are very slow. According to Morgan Stanley, falling oil prices – thus transportation fuel costs – will have different effects on these different modes. Morgan Stanley concluded that falling fuel prices can, in the short term, provide a windfall for those carriers with longer lags." See chart below.



FRIDAY, JANUARY 2ND

- Markit Economics reports its purchasing managers' index (PMI) for the U.S. manufacturing sector declined to a final reading of 53.9 in December from a level of 54.8 in November; citing concerns about a weak global economy causing the index to slide to its lowest point since January 2013.

- The Commerce Department reports U.S. construction spending declined by 0.3% in November to a seasonally adjusted annual pace of $975 billion (U.S.).

- The Tempe, Arizona-based Institute for Supply Management (ISM) reports its U.S. manufacturing index declined to a reading of 55.5 in December from a level of 58.7 in November; citing the new orders index component fell by 8.7 points to a reading of 87.3, while the production index component retreated by 5.6 points to a level of 58.8.

- Front Page Headline, Bloomberg News – "European Strategists Foresee More Pain for Euro in 2015. The euro has declined from 1.40 last May against the U.S. dollar to today's closing level of 1.2035, a four-year low. Kit Juckes, a global strategist at Societe Generale in London is forecasting the euro will weaken to a level of 1.14 by year-end 2015. Wake-Up Call for the European Central Bank: Meanwhile, ECB President Mario Draghi, who has become an expert at 'dragging his feet' will likely announce some economic stimulus measures in the coming months, but characteristically focusing on yesterday's battles: Too little! Too late!"

European Central Bank President Mario Draghi.
Source: Bloomberg News

- London-based Markit Economics reports the final reading of its purchasing managers' index (PMI) for the European Monetary Union (EMU) rose slightly to a reading of 50.6 in December, from a level of 50.1 in November. Chris Williamson, the chief economist at Markit, observed: "The ongoing crisis in Ukraine and the renewed lack of confidence in the ability of EMU policymakers to revive the region's economy, appear to have been the main catalysts to fuel increased economic uncertainty, causing companies to become more risk adverse."

- RBC reports its Canadian Manufacturing Purchasing Managers' Index (PMI) declined to a seasonally adjusted reading of 53.9 in December, following a level of 55.3 in November. Paul Ferley, an economist at RBC, commented: "Despite the recent fluctuation in commodity prices, particularly for oil, we continue to be constructive on the overall economic environment in Canada, including exports, which should mean good things for Canadian manufacturing going forward."

- Front Page Headline, Daily Telegraph U.K. – "European Bond Yields Fall to Lowest Levels Since the Black Death. International Business Editor Ambrose Evans Pritchard writes: Bond yields have plummeted to record lows across the euro zone as deflation becomes lodged in the financial system and markets anticipate a blitz of asset purchases by the European Central Bank (ECB) sometime soon. The German 5-year bund yield declined below zero per cent for the first time ever in today's trading, implying that investors are willing to pay the German government to store their money for the rest of this decade. Italian, Spanish and Portuguese bond yields have also declined significantly over the past two days. France can now borrow for a five-year term at a yield of 0.13% and Ireland at 0.32%. Nothing like this has been witnessed in European history since the 14th. century, after the depletion of silver mines triggered a slow monetary contraction, followed by Edward III's default on loans from Italian banks and the Black Death plague of the late 1340s, compounding a deflationary collapse. Andrew Roberts, a credit executive at the Royal Bank of Scotland, observed: 'What we are witnessing is the Japanification trade. The euro zone is sinking into corrosive deflation and it is too late to stop. We think the euro zone's December inflation rate may already have slipped into negative territory. The European Central Bank (ECB) is in big trouble."

CLOSING LEVELS FOR FRIDAY, JANUARY 2ND.		WEEKLY CHANGE
Dow Jones Industrial Average	17,832.99	– 220.72 points
Spot Gold Bullion	$1,186.20 (U.S.)	– $9.10 per troy oz.
Spot Silver	$15.77 (U.S.)	– $0.27 per troy oz.
S&P / TSX Composite	14,753.65	+ 144.40 points
10 – Year U.S. Treasury Yield	2.11%	– 14 basis points
Canadian Dollar	85.02 cents (U.S.)	– 0.97 cent
U.S. Dollar Index Future	91.155	+ 1.109 cents
WTI Crude Oil Futures	$52.69 (U.S.)	– $2.04 per barrel
DJIA / Gold Ratio	15.033	– 0.071 point
Gold / Silver Ratio	75.219	– 0.699 point

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