LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, February 23rd

The Munich-based Ifo Institute for Economic Research reports its German business confidence index – based upon a survey of 7,000 executives – rose slightly to a reading of 106.8 in February, following a level of 106.7 in January. Carsten Brzeski, chief

MONDAY, FEBRUARY 23RD

economist at ING in Frankfurt observed: "The Ifo report signals a confidence in the potential benefits from the European Central Bank's (ECB) quantitative easing program beginning in March."

An Audi A7 undergoes final inspection on the production line in Neckarsulm, Germany. Photo Source: Bloomberg News

- The National Association of Realtors (NAR) reports U.S. existing home sales declined by 4.9% to a seasonally adjusted annual rate of 4.82 million units in January, following a pace of 5.02 million units in December, citing a low level of inventory of houses on the market.

- Front Page Headline, Wall Street Journal – "China Purchases Record Amount of Long Term U.S. Treasurys in 2014. Based upon capital-flow data released last week by the U.S. Department of the Treasury, a WSJ analysis reveals a net increase in China's purchases of U.S. Treasury issues maturing in 2 years to 30 years, soared by $185.7 billion (U.S.) in 2014, surpassing the previous record of $123.5 billion (U.S.) set in 2009. The latest data underscore China's role in boosting long-term Treasury prices to new highs and sending yields to new lows. The yield on the benchmark U.S. Treasury 10-year maturity fell to 2.17% at the end of 2014 from 3.03% at the end of 2013. Frank Warnock, a professor at the Darden Business School at the University of Virginia, commented: 'Over the longer term, China's demand for U.S. Treasury issues will decline as its domestic capital markets develop, the yuan becomes more of a global currency and China's economy moves gradually away from a focus on exports towards more domestic consumption."

- Front Page Headline, Zero Hedge – "Nine Countries Have Debt-to-GDP Ratios Exceeding 300%. In an op-ed, researcher Tyler Durden writes: If anyone has stopped to ask just why global central banks are in such a rush to create inflation (but only controlled inflation, not hyperinflation) over the past five years, plus have printed in excess of $12 trillion (U.S.) in credit money since the Lehman crisis of 2008 – the bulk of which has been invested in the stock market – and which for the first time ever are about to monetize all global sovereign debt issuance in 2015, the answer is simple. It can be seen in the chart below which illustrates the biggest problem facing the world today; namely that at least nine countries have debt-to-GDP ratios in excess of 300%

and that a whopping 39% of countries have debt-to-GDP ratios exceeding 100%." See the charts below and to the right.

Rank	Country	Debt-To-GDP Ratio %
1	Japan	400%
2	Ireland	390%
3	Singapore	382%
4	Portugal	358%
5	Belgium	327%
6	Netherlands	325%
7	Greece	317%
8	Spain	313%
9	Denmark	302%
10	Sweden	290%
11	France	280%
12	Italy	259%
13	United Kingdom	252%
14	Norway	244%
15	Finland	238%
16	United States	233%
17	South Korea	231%
18	Hungary	225%
19	Austria	225%
20	Malaysia	222%
21	Canada	221%
22	China	217%
23	Australia	213%
24	Germany	188%
25	Thailand	187%
26	Israel	178%
27	Slovakia	151%
28	Vietnam	146%
29	Morocco	136%
30	Chile	136%
31	Poland	134%
32	South Africa	133%
33	Czech Republic	128%
34	Brazil	128%
35	India	120%
36	Philippines	116%
37	Egypt	106%
38	Turkey	104%
39	Romania	104%
40	Indonesia	88%

Source: McKinsey, Zero Hedge

TUESDAY, FEBRUARY 24TH

- Front Page Headline, Bloomberg News – "European Commission / European Central Bank / International Monetary Fund Approve Greek Economic Measures. Following a 'careful review' by the above-mentioned Troika, the finance ministers of the European Monetary Union (EMU) have approved Greece's list of new economic measures, paving the way for a four-month extension of the country's bailout agreement. The list of commitments includes maintaining current state asset sales, consolidating state pension funds and revamping tax collection methods, as well as administrative procedures. The reform package must now be forwarded to national parliaments for formal consent. Lawmakers and administrative officials in Germany, Finland and the Netherlands have indicated they will not object to the new agreement once their governments grant approval."

- The S&P/Case-Shiller group reports its composite index for house prices in 20 U.S. metropolitan areas rose by 4.5% in December on a year-over-year basis, following a 4.3% annual

Change in debt-to-GDP ratio since 2007 by country

Ranked by real economy debt-to-GDP ratio, 2Q14[1]

Advanced economy / Developing economy — Leveraging / Deleveraging

Rank	Country	Debt-to-GDP ratio[1] %	Real economy debt change, 2007–14 Percentage points: Total	Government	Corporate	Household	Financial sector debt change
1	Japan	400	64	63	2	-1	6
2	Ireland	390	172	93	90	-11	-25
3	Singapore	382	129	22	92	15	23
4	Portugal	358	100	83	19	-2	38
5	Belgium	327	61	34	15	11	4
6	Netherlands	325	62	38	17	7	38
7	Greece	317	103	70	13	20	1
8	Spain	313	72	92	-14	-6	-2
9	Denmark	302	37	22	7	8	37
10	Sweden	290	50	1	31	18	37
11	France	280	66	38	19	10	15
12	Italy	259	55	47	3	5	14
13	United Kingdom	252	30	50	-12	-8	2
14	Norway	244	13	-16	16	13	16
15	Finland	238	62	29	17	15	24
16	United States	233	16	35	-2	-18	-24
17	South Korea	231	45	15	19	12	2
18	Hungary	225	35	15	21	-1	10
19	Austria	225	29	23	6	0	-21
20	Malaysia	222	49	17	16	16	6
21	Canada	221	39	18	6	15	-6
22	China	217	83	13	52	18	41
23	Australia	213	33	23	-1	10	-8
24	Germany	188	8	17	-2	-6	-16
25	Thailand	187	43	11	6	26	21
26	Israel	178	-22	-4	-21	3	-2
27	Slovakia	151	51	28	8	14	-5
28	Vietnam	146	13	10	-1	5	2
29	Morocco	136	20	8	7	5	3
30	Chile	136	35	6	20	9	9
31	Poland	134	36	14	9	13	9
32	South Africa	133	19	18	2	-2	-3
33	Czech Republic	128	37	19	9	9	4
34	Brazil	128	27	3	15	9	13
35	India	120	0	-5	6	-1	5
36	Philippines	116	4	-3	9	-2	-5
37	Egypt	106	-9	9	-18	0	-8
38	Turkey	104	28	-4	22	10	11
39	Romania	104	-7	26	-35	1	-4
40	Indonesia	88	17	-5	17	6	-2
41	Colombia	76	14	1	8	5	3
42	Mexico	73	30	19	10	1	-1
43	Russia	65	19	3	9	7	-4
44	Peru	62	5	-10	11	5	2
45	Saudi Arabia	59	-14	-15	2	-1	-8
46	Nigeria	46	10	7	1	2	-1
47	Argentina	33	-11	-14	1	2	-5

1 Includes debt of households, non-financial corporations, and government; 2Q14 data for advanced economies and China; 2013 data for other developing economies.

NOTE: Numbers may not sum due to rounding

SOURCE: *World economic outlook*, IMF; BIS; Haver Analytics; national central banks; McKinsey Global Institute analysis

growth rate in November. David Blitzer, chairman of the index committee at S&P Dow Jones Indicies commented: "While prices and sales of existing homes remain normal, construction and new home sales remain weak."

- The New York-based Conference Board reports its U.S. consumer confidence index declined to a reading of 96.4 in February, following a level of 103.8 in January. Lynn Franco, the Board's director of economic indicators, noted: "While the number of consumers expecting economic conditions to deteriorate remained virtually unchanged, fewer consumers expect conditions to improve, citing a more moderate economic outlook."

- Front Page Headline, Bloomberg News – "Moody's Downgrades Russia's Sovereign Credit Rating to Ba1. Moody's Investors Service has joined Standard and Poor's (S&P) in downgrading Russia's credit rating to junk status, citing: 'the prospect of further U.S. and European sanctions over Russia's alleged role in the Ukraine conflict, as well as the erosion of the country's foreign reserves. While the decline in the price of oil and the rouble exchange rate have reversed somewhat since the beginning of the year, the negative impact on the inflation rate, investor confidence and economic growth is likely to be sustained."

- In her scheduled semi-annual testimony before the Senate Banking Committee, U.S. Federal Reserve Board Chair Janet Yellen stated: “If the economy strengthens as the Federal Open Market Committee anticipates and officials become more confident that inflation will increase towards their 2% goal, at some point, the central bank will begin considering an increase in the target range, currently 0% - 0.25%, for the Federal Funds rate. However, it is important to emphasize that a modification of forward guidance should not be read as indicating that the FOMC will necessarily raise the target range for the Federal Funds rate in a couple of meetings.”

Photo Source: Reuters

- Front Page Headline, National Press Club – “Former U.S. Ambassador to Russia Blasts American Foreign Policy in Ukraine. In a transcript of a speech delivered at an event sponsored by The Committee for the Republic, at the National Press Club in Washington, Jack Matlock – U.S. Ambassador to the Soviet Union from 1987 to 1991—warned: ‘I think we’re in a very dangerous situation right now, with regard to Russia, over Ukraine. If the United States becomes further involved in what is, in the minds of the Russians, territory which historically, has been part of their country; given the present atmosphere, I don’t see how we are going to prevent another nuclear arms race and that is what scares me.

The Expansion of NATO

Post 9/11, we walked out of the ABM Treaty, which was the basis of all our arms control treaties and the one in which we could deal with each other as equals. Not only did we keep on expanding NATO, but we also began to talk about bases in Eastern Europe and about deploying anti-ballistic missiles, for no good reason at all. Supposedly, it was to defend the Europeans against the Iranians, who at that point didn’t have missiles which could attack them. Nor, was it apparent to many of us why the Iranians would ever want to attack the Europeans. What would they gain out of that? Of course, the Russian reaction became increasingly hostile and we had President Putin’s outburst in Munich in 2007. Clearly, I don’t think there was any particular intent to stick it to Russia. We had a lot of reasons, mainly domestic political reasons, to follow these courses. However, we were simply ignoring the Russian reaction; the inevitable Russian reaction.

So, what we began to receive was a reaction from what you could say was, at best, inconsiderate American actions to a Russian over-reaction. As we know, when these vibrations are set up, they can be amplified. Small ones can grow bigger and bigger and bigger … However the process was, that we developed an atmosphere – which even before this Ukrainian crisis broke upon us – was one of hostility, perceived hostility between us. Something that we had, which at the end of the cold war, we had ended. So, an attitude emerged on both sides that we were facing each other not only as competitors, but also, as adversaries and that we were in a veritable zero-sum game. Anything that the U.S. wanted would be to Russia’s detriment. Anything that Russia wanted would be to America’s detriment. That was precisely the attitude that we expunged in order to end the Cold War.

How the Russians See It

Obviously, we’re in an entirely different mode with Russia. Moreover, I would say it’s not just our President. In fact, the worst offender by far is the U.S. Congress. What Russia has been reacting to is what they consider insufferable arrogance and humiliation for the past several years. Now, they may exaggerate a lot of that, but it has led to the situation where we seem to be operating off two entirely different – both of them unfounded – narratives. The Russians feel that we intend to create a world empire, or if not an empire, at least hegemony and that our goal is to hem them in, surround them and to regard them as simply suppliers of raw materials, determined not to treat them as equals. They know their economy is weak and they know they don’t have the military that we do. However, is that what we Americans are supposed to respect when we deal with other people. Is there a gradation that the powerful one is, the more right one is? In many cases, our actions descend to that premise.

Obviously, this narrative depicts some things that are half-truths, some things that are not, some things are exaggerated, or misunderstandings. However, to them, this is a contest about what is in their vital interest. Of course, the American narrative is quite different. It is the belief there is a recurrence in Russia of an autocratic system which has destroyed the possibility of democracy in Russia and has begun to threaten its neighbours. Never mind that these neighbours were part of the country 30 years

ago and that none of them fought for their independence. It was handed to them. However, we observe these two narratives and we are reading op-eds today that to maintain world peace, America must provide arms to Ukraine, so its populace can defend themselves, etc. It seems to me that both of these narratives are wrong. Ours is based upon a total misunderstanding of the end of the cold war … In point of fact, we negotiated an end to the Cold War which was to the benefit of both countries. At that time, the understanding was that we were creating a Europe whole and free. The breakup of the Soviet Union occurred over two years after the Cold War had ended and it ended definitively. The USSR broke up due to internal pressures and it was led by the elected leader of Russia."

WEDNESDAY, FEBRUARY 25TH

- The Commerce Department reports U.S. new home sales declined slightly by 0.2% to an annual rate of 481,000 units in January, following a pace of 482,000 units in December. Gregory Daco, an economist at Oxford Economics in New York, commented: "The housing market continues to move forward, but at a modest pace. We're expecting the different drivers of the housing sector to come into play as spring approaches, including an environment of: low mortgage rates, reduced home price inflation, strong consumer confidence and accelerating wage growth."

- Front Page Headline, Mineweb – "Have Mega Banks Been Manipulating Gold and Silver Prices? In an op-ed, researcher Lawrence Williams writes: For many years, most of the perennially bullish precious metals commentators, led in terms of continuing vehemence on the matter by the Gold Anti Trust Action Committee (GATA), have been claiming that precious metals prices are being heavily manipulated by the big commercial banks in collusion with the U.S. Federal Reserve and other central banks. As evidence, they cite various documentations, mostly quite old, obtained under freedom of information requests, together with some seemingly very strange volume and price movements on the COMEX markets at potentially key inflection points for precious metals prices, as well as the huge short positions held in all four major precious metals by a small group of major banks in particular. It has always been the gold bulls' complaint that the evidence they have discovered has been totally ignored by the mainstream media. Now, however, is this all changing?

  In a key article published last Monday, the Wall Street Journal (WSJ) reported that at least ten major global banks are being investigated for precious metals market rigging by U.S. authorities and regulators. Specifically, the WSJ notes that it has received reliable information that prosecutors in the U.S. Department of Justice antitrust division are scrutinizing the benchmark price-setting process for gold, silver, platinum and palladium in London; while the Chicago-based Commodity Futures Trading Commission (CFTC) has opened a civil investigation, presumably into activities on the major commodities markets.

  The WSJ reports that the mega banks under investigation include HSBC from the U.K. and which confirmed as much in the bank's latest annual report also issued on Monday last; Barclays and Standard Bank also from the U.K., JP Morgan Chase and Goldman Sachs from the U.S., the Bank of Nova Scotia from Canada, Credit Suisse and UBS from Switzerland and Societe Generale from France. It seems likely that other banks may be drawn into the investigation as well. While some investigations revolve around the rather archaic London Gold Fixing System – which is being replaced in March by a new electronic process – it is worth noting that a recent investigation into this subject by the U.K. and German authorities uncovered no evidence of any wrong doing.

  There does seem to be a fair amount of circumstantial evidence that there is at least some degree of price rigging on the major commodity markets by the big money. This is both in terms of the short positions held and the need to protect them; as well as in the futures markets – particularly for gold and silver – where enormous paper trades are put in place which would seem to have no other purpose than an attempt to influence physical pricing. However, the scope and focus of any official enquiry may be crucial, whether these specifics are duly investigated or not. Some previous CFTC investigations appear to have fallen short in this respect (the manipulation theorists again suspect collusion) and there's no guarantee that any new investigation will be any different. However, at least the possibility that the big money managers (the mega banks) might attempt to manipulate markets to their advantage has finally caught the attention of the mainstream media."

- Front Page Headline, Wall Street Journal – "Germany Markets 5-Year Bond Issue at Negative Yield. For the first time on record, the German Finance Agency has issued 3.281 billion euros ($3.72 billion U.S.) of bonds maturing in April 2020 at an average yield of minus 0.08%." Effectively, this means that fixed income investors will be paying the German state for the privilege of owning its 'bunds' about $3,750 (CAD) equivalent for every $1 million (CAD) of bonds purchased today and held to maturity in 2020.

THURSDAY, FEBRUARY 26TH

- The Labor Department reports U.S. initial claims for state unemployment benefits increased by 31,000 to a seasonally adjusted 313,000 in the week ended February 21st. while continuing claims – reflecting the number of people already receiving benefits – declined by 21,000 to a seasonally adjusted 2.4 million in the week ended February 14th.

- The Commerce Department reports U.S. durable goods – those products expected to last for at least three years – orders rose by 2.8% in January, following a revised decline of 3.7% in December; citing higher domestic demand by businesses for equipment, including machinery and computers. However, factory orders have been affected by moderate export demand.

- The Bureau of Labor Statistics reports the U.S. consumer price index (CPI) declined by a seasonally adjusted 0.7% in January – the third consecutive monthly drop – citing sharply lower oil prices. On a year-over-year basis, the CPI has actually declined by an unadjusted 0.1%, the first negative annual figure since the autumn of 2009. The core CPI – excluding food and energy – rose by 0.2% in January and by 1.6% on an annual basis, reflecting higher housing prices. Meanwhile, real hourly wages increased by 1.2% in January and by 2.4% over the past 12 months.

- Statistics Canada reports the nation's consumer price index (CPI) rose by 1% in January on a year-over-year basis – the slowest pace since November 2013 – and following a 1.5% rate in December; citing continuing lower energy costs. However, the core inflation rate, excluding food and energy, held steady at 2.2%.

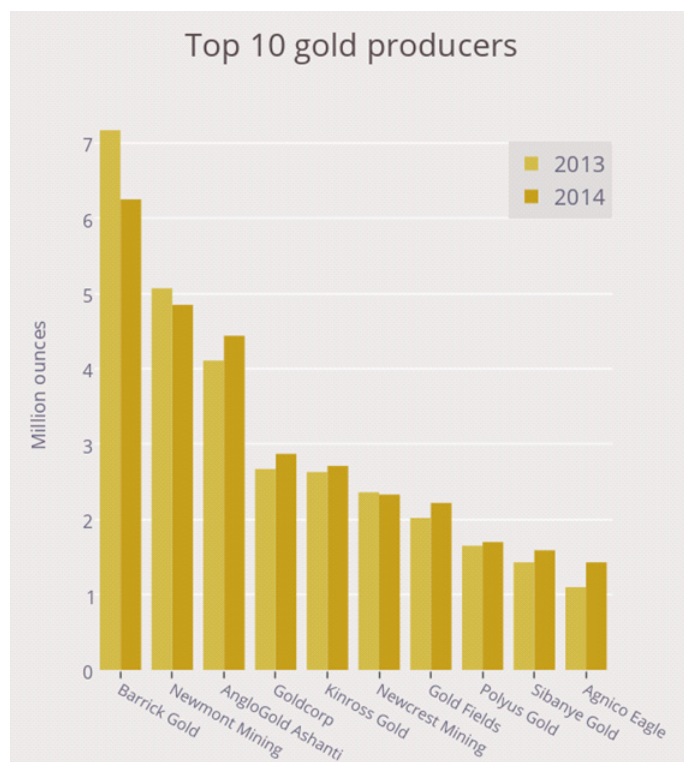
- Front Page Headline, Mining.com – "The World's Top Ten Gold Producers: Updated. In 2014, preliminary estimates for gold production by the top publically-traded and non-state owned gold mining companies amounted to 30 million ounces (Moz), in line with the 2013 totals. Three out of the ten miners suffered a decline in their attributable gold output while six of them achieved growth. With 6.25 Moz of gold produced in 2014, Canada's Barrick Gold Corp. holds first place in global ranking, well ahead of its competitors. Compared to 2013's 7.17 Moz, Barrick's gold output declined by 13%, mainly because of a significant drop in output at its Cortez Mine (-33%), as well as a number of gold mines in Australia and the U.S. which Barrick sold during the year.

U.S.-based Newmont Mining Corporation ranks second in the global gold competition and produced about 4.85 Moz of the precious yellow metal in 2014, a 4% decline from 5.07 Moz in 2013. This was due to a significant 16% decline in gold output at its North American operations and a 6% decline in its Australia / New Zealand operations. Third-ranked Gold Ashanti Ltd. reported its second consecutive growth in annual production. In 2014, the company mined 4.44 Moz of gold, or 8% more than its 4.11 Moz total for 2013. Fourth-ranked Goldcorp Inc. produced 2.87 Moz of gold in 2014, including discontinued operations, or 7.5% more than its 2.67 Moz total for 2013. This increase was due to development of production at Penasquito, Mexico (+41%) and Pueblo Viejo, Dominican Republic (+36%) mines and the commissioning of Cerro Negro, Argentina and Eleonore, Canada mines. Another Canadian company Kinross Gold Corporation, fifth in world gold production rankings, produced 2.71 Moz of gold equivalent in 2014. This volume slightly exceeded Kinross' guidance of about 2.6 Moz of gold equivalent and is 3% higher than its 2013 production totals of 2.63 Moz of gold equivalent.

Sixth in the ratings, Australian Newcrest Mining Limited produced approximately2.33 Moz of gold in 2014, which is 1% lower than 2013's output of 2.36 Moz. South African Gold Fields Limited, currently ranked seventh, produced 2.22 Moz of gold equivalent in 2014, or 10% higher than 2.02 Moz in 2013. This increase is mainly due to the inclusion of a full year's production from the Yilgarn South assets in 2014, compared with only one quarter in 2013. In eighth place, Russian origin Polyus Gold International produced 1.7 Moz of gold, a 3% increase of its 2013 tally of 1.65 Moz. South Africa's Sibanye Gold Limited, which split from Gold Fields in February 2013, enters at ninth position with its first full year of output. In 2014, Sibanye produced 1.59 Moz of gold, or 11% more than its 1.43 Moz level in 2013 from its four Witwatersrand Mines.

At Canadian Agnico Eagle Mines Ltd. gold output soared by a staggering 30%, from 1.1 Moz in 2013 to 1.43 Moz in 2014, thanks to new mines coming on stream, including its Goldex Mine in Canada and La India mine in Mexico; as well as the acquisition of a 50% share in Canadian Malartic Mine. This al-

lows Agnico Eagle to leap frog from 12th. to 10th. position in the world rankings, pushing Freeport-McMoran Inc. out of the top ten. Production at U.S.-based Freeport – primarily a copper producer and owner of the iconic Grasberg mine in Indonesia –declined by 3%, from 1.25 Moz in 2013 to 1.18 Moz in 2014. Coming closer is Canada's Yamana Gold which increased its gold output by 18%, from 1 Moz in 2013 to 1.18 Moz in 2014."



FRIDAY, FEBRUARY 27TH

- The Commerce Department reports U.S. gross domestic product (GDP) growth was downwardly revised to an annual pace of 2.2% in the 4th. quarter of 2014 from the preliminary estimate of 2.6%, citing primarily due to slower inventory accumulation.

- Front Page Headline, GoldMoney – "The Euro May be More Fraught with Risk than Presently Perceived. Researcher Alasdair Macleod writes: Euro zone finance ministers appear to have received a free lesson in game theory from Greek Finance Minister Yanis Varoufakis. While Greece's future in the euro zone is far from secure, it would appear that the country has achieved something. Mr. Varoufakis gave his fellow finance ministers a deal which they dared not refuse; although ratified by Germany's parliament today, it still requires ratification from others. Certainly, Mr. Varoufakis understands that the euro zone is in a weaker position than the bureaucrats and finance ministers themselves believed. It was important for them to become aware of this reality, which was central to his approach. Under the Lisbon Treaty, it appears that euro zone states cannot expel Greece, i.e. she can only leave with everyone's unanimous agreement, including her own. Moreover, they probably didn't realize that playing hardball against Greece would force the European Central Bank (ECB) to write off debts approaching ten times her equity capital of only 10.8 billion euros. This would require all member states to increase their capital subscriptions, including the other euro zone states subject to austerity packages.

  Equally, Mr. Varoufakis would have known that he could not push his opposite numbers too far because the Brussels establishment also has their national parliaments to consider and the positions of Italy, Spain, Portugal and even Ireland. A revolt against previously agreed upon austerity packages by any of these other states would have untold ramifications, not only for the future of the euro zone, but also, for the euro itself. In the wake of this episode, the status of the euro as money is likely to be increasingly questioned, not just in the foreign exchanges, but by its users as well. This should be put into context by referring to Ludwig Von Mises' regression theorem. Simply put, the theorem states that the validity of any currency as a monetary unit is based upon its history and the basis of the value which it possessed prior to its acceptance as money. This unfashionable viewpoint is demonstrably true of gold and silver, but is it also true for fiat paper currencies?

  Both the U.S. dollar and pound sterling have survived more than one hundred years, having based their original value on extended periods of gold convertibility and in the case of sterling, long before that on silver. In the minds of the users, this gives them a pedigree which few would question. However, they represent the exceptions in today's fiat currencies which are the motley survivors of some fifty-seven hyperinflations and there are plenty of examples of how a lack of regression coincides with a temporary character. Look no further than Ukraine, which is suffering its second hyperinflation in twenty-five years. After Britain granted her African colonies independence in the 1960s, the value of all their currencies fell sharply in black market dealings (the sole exception being Botswana which didn't introduce the pula until long after independence).

  Logic, if not familiarity, suggests that there is something in the regression theorem which brings us back to the euro. Like the Kenyan shilling, the Zambian kwacha or the Ukrainian hryvnia, the euro lacked any pedigree upon its creation. There was no period when people had a choice of national currencies to aid the transition. While bonds and financial instruments were

denominated in Euros from January 1999 onwards, notes and coins replaced national notes and coins on an overnight basis three years later. So, if Von Mises' theorem has any validity, holders of euros should be considering their options. Also, it is unfortunate timing that the ECB is about to embark on its most aggressive bout of monetary expansion to date, which could result in sealing the euro's fate. If so, the euro will evolve as the Achilles' heel of the global monetary system."

- Front Page Headline, Daily Telegraph U.K. – "Humiliated Greece Eyes Byzantine Pivot as Euro Crisis Deepens. International Business Editor Ambrose Evans-Pritchard writes: Greece's Syriza radicals have signed a fragile ceasefire with the euro zone's creditor powers. Few think this can last as escalating deadlines race toward their finality on June 30th. Each side has agreed to a deception with equal cynicism, knowing that the interim agreement evades the true nature of Greece's crisis and cannot bridge the immense political divide. Both have bought some time, but not very much.

Yanis Varoufakis, the rap-artist Keynesian with a mission to correct all of Europe's economic ills, notes: 'I'm finance minister of a bankrupt country.' Firstly, Mr. Varoufakis must deal with his own liquidity crisis. Tax revenue arrears have reached 74 billion euros, increasing by 1.1 billion euros a month. He explains: 'This isn't tax evasion. These are normal people who can't pay because they are in distress.' Meanwhile, the Greek Orthodox Church is struggling to pick up the pieces. Father Nikolaos of St. Panoulias Parish in a working-class district of Athens, notes: 'The local councils cannot cope, so people come to us for food. We are feeding 270 people and the situation worsens every day. Today we discovered three young children searching through rubbish bins looking for food. They are living in a derelict building and we have no idea who they are. We rely on donations from the local bakery. If we run out of beans or lentils, I put out a call and everybody brings in whatever they can. There is this spirit of solidarity because nobody feels immune.' Father Nikolaos' poor parish in Drapetsova was built by refugees from Smyrna and Pontus, victims of the 'Catastrophe' of 1922, when ethnic cleansing extinguished the ancient Greek communities of Asia Minor. Father Nikolaos showed me the historic icons and prayer books they hauled with them in wagons, now stored in the church basement.

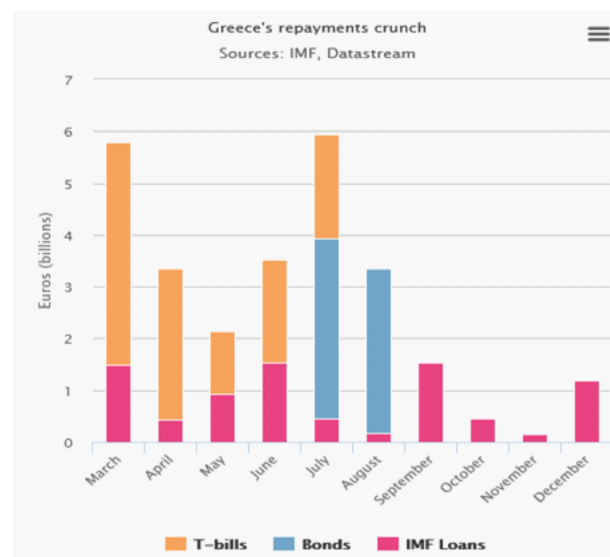
As arrears increase, the utility companies have been cutting off the electricity and sometimes the water as well; leaving 300,000 Greeks in the dark. Father Nikolaos related: 'The people come and ask for candles. They can't use their fridge and they can't cook. Their children can't do their homework.' Restoring electricity is the first order of business in Syriza's 'Thessaloniki program,' along with food stamps, a halt to property foreclosures and a month's extra pension for the less affluent. Father Nikolaos has urged Syriza to stand his ground: 'Yes, we Greeks played our own part in our downfall, but Europe played its part too. We must not sell ourselves out at any cost, or sell our monuments in order to pay our debts. We must fight.' Syriza has a peculiar mandate. The Greeks voted for defiance, but also to remain in the euro; two objectives which are difficult to reconcile. Views are divided over which emotion runs deeper, therefore which way the inscrutable Alexis Tsipras will pivot. The boyish prime minister has yet to disclose his hand.

Over a cup of coffee, one Syriza MP cautiously related: 'When it comes to the choice, I fear Tsipras will abandon our program rather than relinquish the euro. The European Monetary Union (EMU) is more than just money to the Greeks. It was only when we joined the EMU that we felt truly European. Prior to that, there was always a nagging doubt. However, you can't fight austerity and avoid a direct confrontation with the EMU. You have to be willing to leave, so it is going to take a long time for the party to accept this bitter reality. Personally, I think the euro was a tremendous historic mistake and the sooner it is disbanded, the better for all the peoples of Europe, however, that is not the party's view.' Fast moving events may accelerate the decision, since Greece must repay 1.6 billion euros to the International Monetary Fund (IMF) in March. A Nomura economist has noted: 'The Syriza administration could exhaust funds for basic government functions within ten days. , so the risk of capital controls remains elevated.'

Alekos Flambouraris, the government affairs minister, has already begun uttering the fatal word 'delay', as if it were possible to delay an IMF payment without triggering a total collapse of confidence. Privately, Syriza insiders warn that default is becoming an alarmingly real possibility. Another official commented: 'Things are so bad that anything could happen. I blame the European Central Bank for setting off a self-fulfilling flight from the banking system by refusing to accept Greek collateral in exchange for loans. I can't talk anymore because the phones are bugged.' This decision was made within days of Syriza's landslide election, but before the EMU's elected leaders had issued any opinion. The ECB's pre-emptive move is seen in Athens as counter-insurgency warfare against the first radical Left party elected in Western Europe since 1945. It will not be forgotten lightly. The outflows were brisk even before that. Deposit losses reached 12.8 billion euros in January. This is being revealed in the Target2 payment data of the ECB system. The Greek central bank's liabilities to the rest of the EMU network soared from

49 billion euros in December to 76 billion euros in January, as capital flight accelerated. By now, they may have reached 100 billion euros. This is double-edged. If Greece spins out of control, creditors have even more to lose. A full repudiation of debt to EU states and institutions would cost over 300 billion euros; the biggest default of all time.

Still, Germany's Wolfgang Schaeuble pounds the table, playing to his billing in Greek demonology as the national nemesis, stating: 'Greece will not receive a single euro until it complies with its obligations.' There will be no money before the end of April from the EU-IMF Troika, euphemistically renamed the 'institutions.' Nor is this guaranteed. The Syriza government must first demonstrate that it is actually implementing Troika demands, not just announcing them. A bigger crunch will come when the stop-gap agreement expires at the end of June, just before Greece must repay 6.7 billion euros to the ECB. Costas Lapavitsas, a Syriza MP and an economics professor at the University of London, commented: 'We're going to have four months of constant bickering and fighting with the EU institutions and when we arrive in June we're going to face exactly the same blackmail over liquidity support, if not worse.' It remains far from clear who really has the upper hand in this game of strategic chicken. Both sides can reasonably calculate that the other will blink first at each future deadline. One of them is wrong. That is what makes this drama riveting, as well as, so dangerous."



- The Tempe, Arizona-based Institute for Supply Management (ISM) reports its Chicago purchasing managers' index (PMI) for the manufacturing sector declined to a reading of 45.8 in February from a level of 59.4 in January, the lowest level since July 2009; citing port strikes and severe winter weather. Production, new orders, order backlogs and employment all suffered double-digit losses, leaving them below the 50 mark which separates contraction from expansion.

CLOSING LEVELS FOR FRIDAY, FEBRUARY 27TH.		WEEKLY CHANGE
Dow Jones Industrial Average	18,132.70	– 7.74 points
Spot Gold Bullion	$1,213.10 (U.S.)	+ $8.20 per troy oz.
Spot Silver	$16.60 (U.S.)	+ $0.38 per troy oz.
S&P / TSX Composite	15,234.34	+ 62.10 points
10 – Year U.S. Treasury Yield	1.99%	– 12 basis points
Canadian Dollar	79.98 cents (U.S.)	+ 0.27 cent
U.S. Dollar Index Future	95.253	+ 0.912 cent
WTI Crude Oil Futures	$49.76 (U.S.)	– $1.05 per barrel
DJIA / Gold Ratio	14.947	– 0.109 point
Gold / Silver Ratio	73.078	– 1.207 points

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