UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

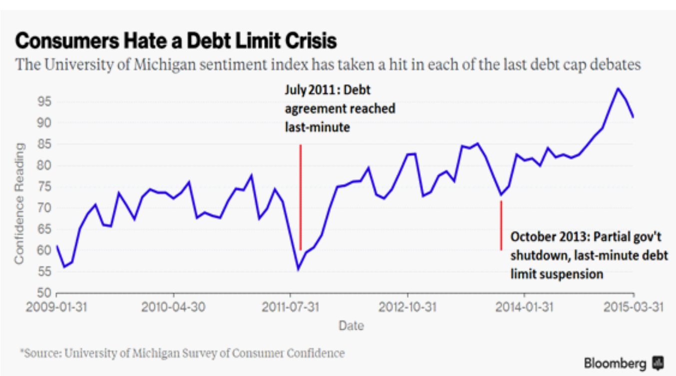
THAT WAS THE WEEK THAT WAS

Monday, March 16th

Front Page Headline, Bloomberg News – "A U.S. National Debt Limit Showdown in Congress Will Cost the Domestic Economy. A 2013 study by Macroeconomic Advisors revealed that the problems arising

MONDAY, MARCH 16TH

from a brief failure to raise the national debt limit – which include rising risk aversion and declining risk asset prices – would have sent the U.S. economy back into recession that year. A standoff of two months could have cost three million jobs. The study also discovered that fiscal policy uncertainty between 2010 and 2013 lowered the U.S. gross domestic product (GDP) growth rate by a 0.3 percentage point per year and raised the official unemployment rate in 2013 by a 0.6 percentage point; i.e. equal to 900,000 jobs."



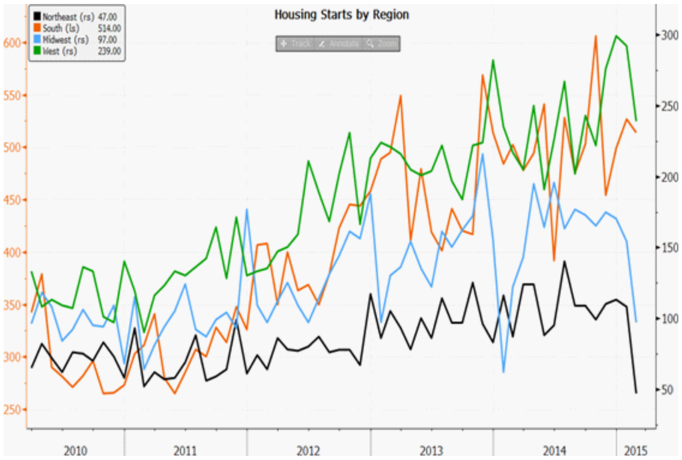
- The New York Federal Reserve reports its Empire State manufacturing index declined to a reading of 6.90 in March from a level of 7.78 in February, citing a sharp drop in new and unfilled orders; as well as a moderation in shipments. John Ryding, chief economist at RDQ Economics in New York, noted: "The manufacturing sector has begun 2015 on a softer note than expected and if we do not see an improvement in a few months, we will consider lowering our 3% real GDP growth forecast for 2015."

- The National Association of Home Builders reports its index of U.S. home builder confidence declined to a seasonally adjusted reading of 53 in March, following a level of 55 in February. A reading over 50 indicates a majority of builders see conditions as generally positive. In a statement, NAHB Chief Economist David Crowe commented: "The decline in builder confidence in March is largely attributable to supply chain issues; such as lot and skilled labor shortages, as well as tight underwriting standards."

TUESDAY, MARCH 17TH

- The Mannheim-based Zew Center for European Economic Research reports its index of investor confidence and analyst expectations – which aims to predict economic developments six months in advance – rose to a reading of 54.8 in March, following a level of 53 in February. Zew President Clemens Fuest commented: "German economic sentiment remains at a high level. In particular, the continuing positive development of the domestic economy confirms the expectations of experts. However, limited progress is being made regarding a solution to the Ukraine conflict, as well as the sovereign debt crisis in Greece. So, these issues continue to have a moderating effect on investor and analyst economic sentiment."

- The Commerce Department reports U.S. housing starts declined by 17% in February to a seasonally adjusted annual rate of 897,000 units, following a revised pace of 1.08 million units in January; citing heavy snowfalls that sidelined builders in the Northeast and Midwest. Meanwhile, building permits for new construction increased to an annual rate of 1.09 million in February from January's upwardly revised level of 1.06 million.



Source: Bloomberg News

- Statistics Canada reports the nation's factory sales declined by 1.7% in January to $51.4 billion (CAD), mainly impacted by falling prices for refined oil. Sales fell in 14 of 21 categories tracked by Statscan, accounting for just below 50% of shipments. Petroleum and coal product sales declined by 11.9% to $4.94 billion (CAD), the biggest one-month drop since 2008 as prices fell by 11.4%. Sales in this category have dropped by 35% over the past seven months and have fallen to their lowest level since May 2009.

- Front Page Headline, Wall Street Journal – "U.S. Treasury Secretary Jacob Lew Criticizes European Support for the new Asian Infrastructure Investment Bank. At a hearing of the House Committee on Financial Services, Treasury Secretary Lew warned: 'Our concern has always been: will the new entity adhere to the levels of high standards that the international financial institutions developed? Will it protect the rights of workers, the environment and deal with the corruption issue appropriately? Before any final commitments are made, I would hope that any country who would lend their name to this organization (most recently Germany, France, Italy and the U.K.) would make certain that the Chinese government is addressing those issues. Congress is undermining U.S. economic and national security interests by failing to approve a five year-old international agreement for major governance overhauls at the International Monetary Fund (IMF). Our international credibility and influence (through the World Bank and the Asian Development Bank) are being threatened … U.S. approval of the IMF governance reforms will help convince emerging economies to remain in the multilateral system which the U.S. still leads."

- Front Page Headline, Mish's Global Economic Trend Analysis – "Banco de Madrid Files for Bankruptcy. Spain's central bank announced that Banco de Madrid SA filed for bankruptcy after its Andorran parent was accused of money laundering for organized crime groups. Banco de Madrid has been hit by substantial client withdrawals, which has impacted the ability of the lender to meet its obligations in a timely manner. The central bank stated that deposits of up to 100,000 euros ($104,970 U.S.) are protected by Spain's deposit guarantee fund. According to data from Spain's banking association AEB, Banco de Madrid held 674.7 million euros in customer deposits as of September 2014. Banco de Madrid disclosed it had 'undergone a sharp deterioration in its economic and financial situation in recent days after its parent company was named as a primary laundering concern' by the U.S. government. As of March 11th. Banco de Madrid had about 15,000 clients and 20 offices in other major cities such as Barcelona."

WEDNESDAY, MARCH 18TH

- Front Page Headline, Bloomberg News – "FOMC Leaves Fed Funds Target Range Unchanged at 0% - 0.25%. In a press release following its regularly scheduled monetary policy meeting, the Federal Open Market Committee stated: 'It will be appropriate to tighten monetary policy when the committee has seen further improvement in the labor market and is reasonably confident that inflation will move back to its 2% objective over the medium term. Therefore, an increase in the target range for the Fed Funds Rate remains unlikely at the April meeting.'

U.S. Federal Reserve Chair Janet Yellen.
Source: Reuters

THURSDAY, MARCH 19TH

- The Labor Department reports U.S. initial claims for state unemployment benefits increased by 1,000 to a seasonally adjusted 291,000 in the week ended March 14th. while continuing claims declined by 11,000 to 2.42 million in the week ended March 7th.

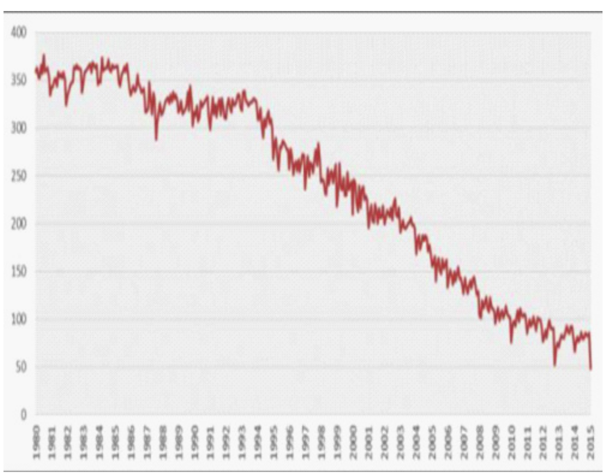
- The Commerce Department reports the U.S. current account deficit – which measures the flow of goods, services and investments into and out of the country – widened to $113.5 billion (U.S.) in the 4th. quarter of 2014 from $98.9 billion (U.S.) in the 3rd. quarter.

- Front Page Headline, Mineweb – "Gold Mining's Fall from Grace in South Africa. Researcher Lawrence Williams writes: When all the figures have been tallied, South Africa may have regained its position as the world's fifth largest gold producer in 2014. One estimate of global gold output in 2014 records that the country produced 168 metric tonnes, a small increase over 2013's 164.5 metric tonnes. Only a few years ago, South Africa had totally dominated world gold production by mining 1,000 metric tonnes a year. However, the latest output figures from Statistics South Africa reveal a serious continuing decline in monthly gold production.

  Since new across-the-board wage negotiations will be surfacing over the next couple of months, some suggest that this year could see a further sharp slump in output. Initial indications suggest that the wage talks may prove extremely difficult. In the South African context, difficult wage negotiations can get out of hand, as witnessed in the virtual four-month shutdown of much of the country's platinum sector in 2012. This was coupled with some horrendously violent events – including the Marikana massacre when police opened fire on striking miners killing 44) and continued reports of other violence and intimidation throughout … Notably, inter-union rivalries between the National Union of Mineworkers (NUM) – which represents about 57% of gold sector workers – and the more militant Association of Mineworkers and Construction Union (AMCU) – which represents about 25% of gold workers – could add another dimension and probably not a positive one.

  Thus, the NUM will be looking to protect its currently dominant position in the gold sector by playing hardball, while the AMCU will be looking to gain ground as it did in the platinum mines, where it managed to supersede the NUM as the dominant union. Indeed, initial reports suggest as a preliminary negotiating ploy, the NUM is seeking wage increases of 100% for the lower paid section of the gold mines work force. However, this all unfolds at a time when a number of existing mines are operating at a loss, even on a cash costs basis. Perhaps, half the sector is loss-making on an All In Sustaining Costs metric. Moreover, there is little sign of any significant improvement in the price of gold bullion. Indeed, the gold price has fallen to a five-month low level just this week. Thus, the mining companies cannot concede major wage increases without having to shut down mines, which will generate government opposition given the huge numbers employed in the sector. Therefore, the implication is that the wage talks could become a very hard-fought battle for the hearts and minds of the work force, which could easily turn nasty as was at the platinum mines.

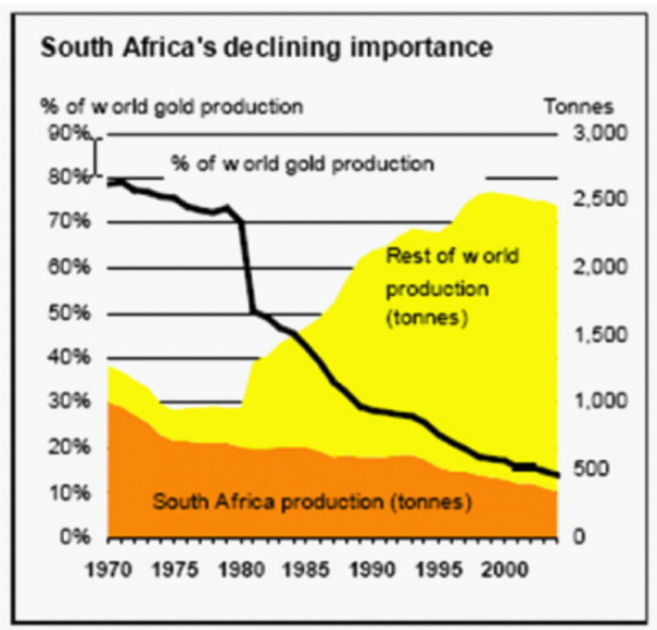
  Regardless of the outcome of the labour negotiations, a week ago Statistics South Africa – the country's statistical body – published an appraisal of how it views the situation. An abbreviated version of Stats SA's analysis is outlined as follows. 'Although a number of temporary factors might have contributed to the unusually low level, South Africa's gold production reached a new monthly low in January. General historical trends reveal that gold has lost the prominent place it once had in the South African economy. Stats SA has published comparable mining production indicies that go back as far as January 1980, not only for the gold industry, but also, for the iron, platinum and coal industries. The indicies provide an indication of the level of production, set at 100 against a particular base period of 2010. Historical values of the gold index show the extent of how gold production has declined. In January 1980, the index reading was 359.0 while the volume of gold produced was far lower in January 2015, resulting in the low index reading of 48.4. <u>However, what is not depicted in the graph below is the fact that gold production began its downward trend well prior to January 1980.</u>



Source: Statistics South Africa

The decline in gold production has reduced its contribution to the South African economy. The yellow metal had contributed 3.5% to the country's gross domestic product (GDP) in 1993, then falling to 1.7% in 2013. In terms of sales, gold comprised 67% of all mineral sales in 1980, then declined to 12.5% in 2014 … The chart below published by Zero Hedge in 2012 depicts South African gold mining production from its 1970 peak of about 1,000 metric tonnes as a percentage of global gold output.

That assessment makes for depressing reading for the South African gold mining sector, indeed for the South African economy as a whole. There has been some respite within the gold sector itself due to the declining value of South Africa's rand against the U.S. dollar, but this ultimately leads to increasing inflation which in turn tends to cancel out the advantages. Indeed, it leads to ever more problematical wage demands in percentage terms, as miners seek to maintain their standard of living at the very least.



Source: Zero Hedge

Truly, the South African gold sector is increasingly finding itself between a rock and a hard place. In this writer's view, the country's gold sector is well set to continue on its downward path and is unlikely to make any recovery as the mines get ever deeper making the gold they produce more costly and more dangerous to mine. Already some mines are producing the majority of their output from more than two miles vertically below the surface. Improvements in technology may enable them to continue this process, but at what cost? The only salvation could be a huge gold price increase, but it is not certain that could do more than temporarily arrest the continuing decline in gold production."

- The Commerce Department reports U.S. retail sales declined by 0.6% in February, following a 0.8% drop in January; citing harsh winter weather likely kept consumers away from automobile showrooms and shopping malls.

FRIDAY, MARCH 20TH

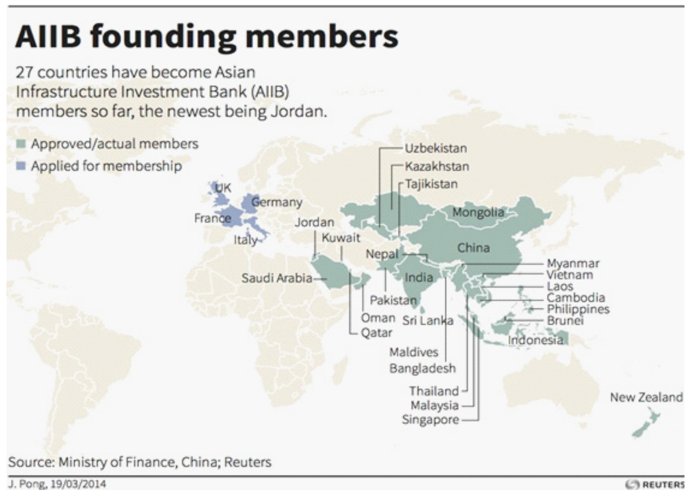
- Statistics Canada reports the nation's consumer price index (CPI) rose by 1% in February on a year-over-year basis, mostly due to depressed fuel prices; citing gasoline prices were 21.8% lower, while fuel oil prices plunged by 23.4%. Separately, Statscan reported the nation's retail sales declined by 1.7% in January, led by an 8.8% drop in sales at gasoline stations and a 1.4% decline in new car sales.

- Front Page Headline, GoldMoney – "A New Order Emerges. Researcher Alasdair Macleod writes: China and Russia have taken the lead in establishing the Asian Infrastructure Investment Bank (AIIB), seen as a rival organization to the World Bank and the Asian Development Bank, which are dominated by the United States along with Europe and Japan. These banks conduct business at the behest of the old Bretton Woods order. The AIIB will dance to China's and Russia's tune instead. The geopolitical importance was immediately evident from Washington's negative reaction to the U.K.'s announcement this week that it would join the AIIB. Then very shortly afterwards, France, Germany and Italy also defied the U.S. by announcing they might join. In the Pacific region, Australia announced she is also considering membership along with New Zealand. The list of American allies seeking to join is growing. From a geological point of view, China and Russia have completely outmaneuvered the U.S., splitting both NATO and America's Pacific alliances right down the middle … One must appreciate that anything China does is planned well in advance … In 2002, China and Russia formally adopted the founding charter for the Shanghai Cooperation Organization (SCO), an economic bloc which today contains about 35% of the world's population and which will increase to more than 50% when India, Pakistan, Iran, Afghanistan and Mongolia join. While Russia has the resources, China has the manufacturing power and together they will develop the largest internal market ever witnessed.

In October 2013, U.K. Chancellor of the Exchequer George Osborne was effectively summoned to Beijing because China wanted London to be the base to develop renminbi-denominated financial instruments. London has served China well, with the U.K. government even issuing the first renminbi-denominated government bond. The renminbi is now on the way to being a fully-fledged international currency. The establishment of the

AIIB will ensure the lead funding is available for the rapid development of road, rail, electric and electronic communications throughout the SCO, ensuring equally rapid economic development of the whole of the Asian continent. It could amount to the equivalent of several trillion U.S. dollars over time. The countries that are applying to join the AIIB realize that they must be members to access what will eventually become the largest single market in the world. America is being frozen out, the consequence of her belligerence over Ukraine and the exercise of her hegemonic power through the U.S. dollar. America's allies in South East Asia are either going with, or will be going with the new AIIB; while in Europe, commercial interests are driving America's NATO partners away from her, turning the Ukraine crisis from a common cause into a festering liability.

The more one thinks about it, the creation of the AIIB is a master stroke of tactical genius. Now, the outstanding issue is that China and Russia must create a credible plan to enable their currencies to become a replacement for the U.S. dollar. We know that gold may be involved because the SCO members have been accumulating gold bullion; but before we get there China must manage a deliberate deflation of her credit bubble, which will present a delicate and dangerous task. Unlike the welfare-driven economies in the West, China has sufficient political authority and internal control to survive a rapid deflation of bank credit. When this inevitably occurs, the economic consequences for the West will be very serious. Japan and the euro zone are already facing economic dislocation and despite overly optimistic unemployment numbers, the American economy is faltering as well. The last thing that America and the U.S. dollar need is a deflationary shock from China. The silver lining for us all is a peace dividend: it is becoming less likely that America will persist with a call to arms, because support from her allies is melting away and leaving her on her own."



CLOSING LEVELS FOR FRIDAY, MARCH 20TH.		WEEKLY CHANGE
Dow Jones Industrial Average	18,127.65	+ 378.34 points
Spot Gold Bullion	$1,184.60 (U.S.)	+ $32.20 per troy oz.
Spot Silver	$16.73 (U.S.)	+ $1.12 per troy oz.
S&P / TSX Composite	14,942.41	+ 210.91 points
10 – Year U.S. Treasury Yield	1.93%	– 18 basis points
Canadian Dollar	79.50 cents (U.S.)	+ 1.31 cents
U.S. Dollar Index Future	98.013	– 2.237 cents
WTI Crude Oil Futures	$46.57 (U.S.)	+ $1.73 per barrel
DJIA / Gold Ratio	15.302	– 0.100 point
Gold / Silver Ratio	70.807	– 3.018 points

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