LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, March 23rd

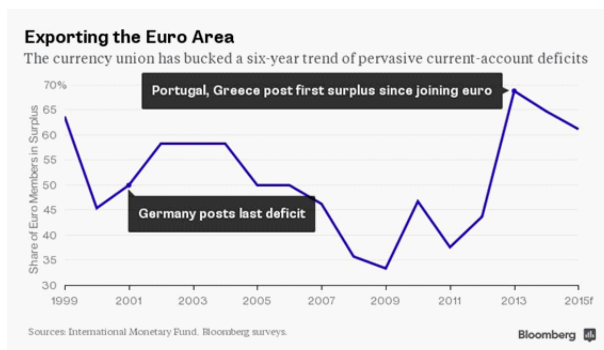
Front Page Headline, Bloomberg News – "The Top 15 Economies Winning in Global Trade. According to recent Bloomberg News Surveys of economists in 75 countries and territories, on the winning side are 36 economies expecting to post surpluses this year

MONDAY, MARCH 23RD

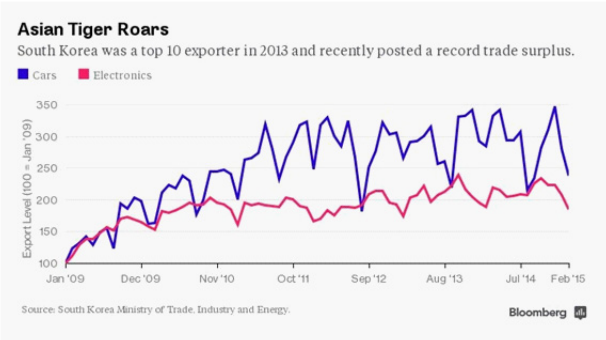
in their current accounts; the broadest measure of trade in goods and services. Despite lower oil prices, wealthy energy exporters Kuwait and Norway are close to the top of the list and both are expected to record surpluses of at least 10% of gross domestic product (GDP) in 2015. In contrast, Saudi Arabia – the world's largest crude oil exporter – will witness its surplus plunge from an IMF-estimated 15% of GDP in 2014 to less than 1% this year.

Western Europe is performing quite well in the current account stakes, which cites eight of the fifteen largest surpluses in our ranking (see above chart), including the Netherlands, Denmark and Germany, the world's number three exporter.

A strengthening Swiss franc means watch giant Switzerland could bid farewell to the double-digit club, with our surveys forecasting a surplus of 8.3% of GDP. Ireland is expected to post its largest surplus since joining the European Union – at about 5.5% of GDP – due in part to robust pharmaceutical exports, while euro member Slovenia will top Ireland slightly at 5.8%.



Asia's low labor costs continue to give its exporters an edge, with 11 of 13 of the region's economies tracked by Bloomberg expected to export more abroad this year than what they import. Singapore leads the overall ranking with a surplus approaching 20% of GDP, followed by third-best Taiwan at 11% and South Korea in ninth place at 7%. South Korea posted a record trade surplus in February, breaking its previous high level set last October. Since the depths of the global financial crisis, South Korea's exports of automobiles and electronics have roughly doubled."

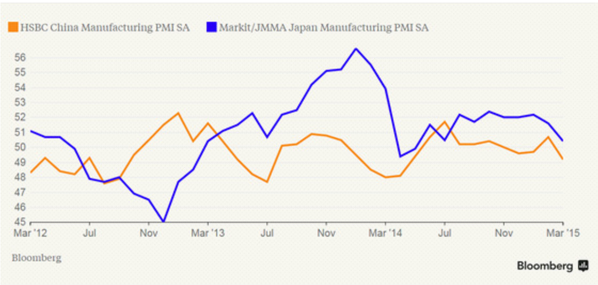


- The National Association of Realtors (NAR) reports U.S. existing home sales increased by a seasonally adjusted 1.2% in February from January to an annual rate of 4.88 million units, citing a persistent shortage of properties on the market. On a year-over-year basis, February sales were 4.7% higher. At a press conference, NAR Chief Economist Lawrence Yun stated: "While an insufficient supply of listings for sale appears to be hampering prospective buyers in several areas of the country, it is boosting prices to a near unhealthy pace."

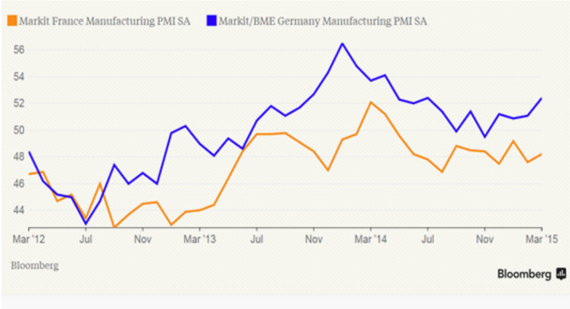
TUESDAY, MARCH 24TH

- The Commerce Department reports U.S. new home sales increased by 7.8% in February to an annualized pace of 539,000 units, the highest level in seven years. Stan Shipley, an economist at Evercore ISI in New York, commented: "It looks like the spring marketing season is off to a good start. With low mortgage rates, new homes are very affordable for most potential homeowners, even as credit requirements remain tight."

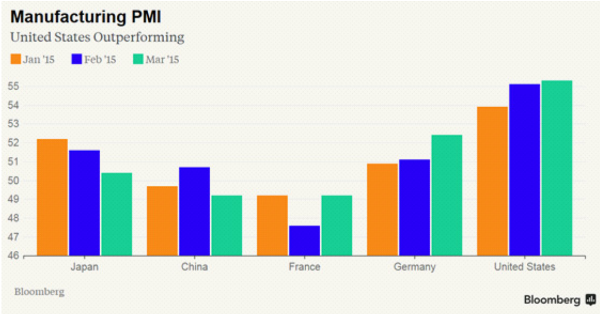
- Front Page Headline, Markit Economics – "Global Manufacturing PMI Data. HSBC reported China's purchasing managers' index for the manufacturing sector fell to a reading of 49.2 in March, while Japan's PMI declined to a level of 50.4 from 51.6 in February. See chart below.



In the euro zone, Markit Economics reported Germany's manufacturing PMI rose to a reading of 52.4 in March, while the French PMI rose modestly to a level of 48.2 and the euro zone posted a higher reading of 54.1.



Meanwhile Markit Economics reported the U.S. manufacturing PMI rose slightly to a reading of 55.3 in March. A reading above 50 indicates an expansion of economic activity, while a reading below 50 indicates contraction. (See chart below).



- Front Page Headline, Mish's Global Economic Trend Analysis – "Plotting the Distrust of Greek Banks. Using Target2 Imbalances as a measure of capital flight and distrust which Greeks have of their banks, here are two charts which reveal the trend very well.

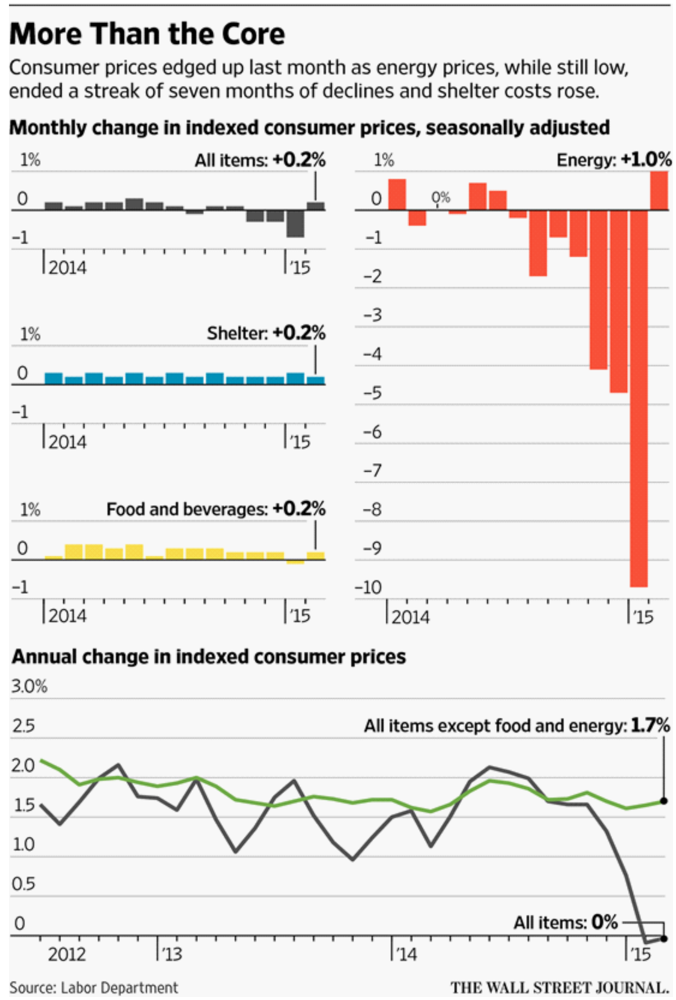
Source: Euro Crisis Monitor

Between October 2014 and February 2105, in excess of 52 billion euros have fled Greek banks. Looking back to June 2014, when the situation appeared to be improving and capital flight is about 60 billion euros.

Source: Euro Crisis Monitor

The record Target2 deficit for Greece was 109.315 billion euros in November of 2011. The Greek Target2 deficit has exceeded 100 billion euros for 14 of 15 months between September 2011 and November 2012. On July 26, 2012, ECB President Mario Draghi stated: 'The ECB is ready to do whatever it takes to preserve the single currency. Believe me, it will be enough.' Decidedly, confidence in the euro resumed and with a slight lag, confidence in Greek banks also returned. Between February 2012 and June 2014, almost 77 billion euros flowed back into Greek banks. With the rise of the Syriza Party, investor confidence in Greek banks waned again, accelerated ahead of the January 2015 Greek national election, then continued to decline after the election … A significant number of the Greek populace refrained from paying their taxes because they figured Syriza's Alexis Tsipras would negotiate a new agreement with the Troika and for Greek taxpayers. However, a new deal hasn't happened, so the run on Greek banks has continued. Neither the ECB, nor other euro parties appear eager to forward funds to Athens until meaningful reforms are established."

- The Labor Department reports the U.S. consumer price index (CPI) rose by 0.2% in February from January, citing stable fuel prices; but the core index – ex food and energy – remains unchanged at 1.7% on a year-over-year basis.

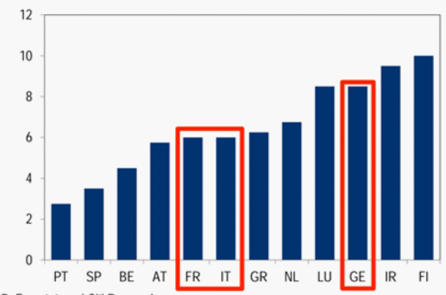


WEDNESDAY, MARCH 25TH

- The Commerce Department reports U.S. durable goods – products expected to last at least three years – orders declined by a seasonally adjusted 1.4% in February; citing lower demand for automobiles and large commercial aircraft. Meanwhile, January's durable goods orders were downwardly revised to a 2% increase from a previously reported increase of 2.8%. Stephen Stanley, chief economist at Amherst Pierpont Securities in Stamford, Conn. commented: 'Businesses have been extremely cautious. The economy hasn't been very strong and investors have expressed their doubts about the sustainability of gross domestic product (GDP) growth.'

- The Munich-based Ifo Institute for Economic Research reports its German business confidence index – based upon a survey of 7,000 executives – rose to a reading of 107.9 in March from a level of 106.8 in February. Thomas Gitzel, chief economist at VP Bank AG in Liechtenstein, observed: 'The general conditions for the German economy are favourable. Companies are confident about the future due to a weak euro, low interest rates and the robust U.S. economy.'

Figure 2. Selected EA Countries —Country Average Score (From Least Sensitive To Most Sensitive) To Euro Depreciation



Sources: ECB, Eurostat, and Citi Research

- Front Page Headline, Telegraph U.K. – "America Risks Epic Blunder by Treating China as an Economic Enemy. In an op/ed, International Business Editor Ambrose Evans Pritchard writes: The United States has handled its economic diplomacy with shocking myopia. The U.S. Department of the Treasury's attempt to cripple the Asian Infrastructure Investment Bank (AIIB) before it becomes operational is clearly intended to thwart China's ascendancy as a rival financial superpower, whatever the faux-pieties from Washington concerning standards of 'governance.' Such a policy is misguided at every level; evidence of what can go wrong when a lame-duck president defers to posturing amateurs in Congress on delicate matters of global geo-strategy. Washington has enraged Britain by trying to browbeat Downing Street into boycotting the project. It has forced allies and friendly countries across the Far East to make a fatal choice between the U.S. and China which none wished to make and has resulted in losing almost everybody. Germany, France and Italy are joining. Australia, South Korea and Canada may soon follow.

The AAIB is exactly what the world needs. China must recycle its trade surpluses and its $3.8 trillion (U.S.) currency reserves by one means or another. It can either purchase U.S. Treasurys, German Bunds or U.K. Gilts, perpetuating a global bond bubble, or it can make surgical investments abroad in order to acquire technology for its champions and pursue a narrow national interest. Otherwise, it can recycle the money in concert with other members of the AIIB – with an initial capital base of $50 billion (U.S.) – for sewage projects, clean energy, ports, roads and railways in Asia, helping to plug a $700 billion (U.S.) shortfall in infrastructure investment which the World Bank is too small to cover and which is of collective benefit to the world. Britain recycled its surpluses in the 19th. century by building the world's railways. America did so in the 1950s via the Marshall Plan. China must do likewise and it is difficult to see why the AIIB is considered to be such a villainous variant. American officials castigated Britain for breaking ranks and embracing the AIIB project, as if it were surrendering to an enemy. One U.S. official informed the Financial Times: 'We are wary about a trend of constant accommodation of China, which is not the best way to engage a rising economic power.'

In any case, one is left breathless at the historical folly of such a view. As Henry Kissinger warned in a Caixin magazine article this week, the greater danger is that America fails to accommodate the rise of China in an enlightened fashion, repeating errors made by the status quo powers faced with a prickly Germany prior to the First World War. There are also echoes of the Korean War in this Atlantic spat, although thankfully, the stakes are less violent today. Britain tried to restrain General Douglas MacArthur and Washington's hawks as they sent U.S. forces charging through North Korea to the Yalu River and the Manchurian border in 1950, warning that it would force China to respond. MacArthur's contemptuous riposte was to liken British reflexes to the betrayal of Czechoslovakia at Munich, of 'desiring to appease the Chinese Communists by giving them a strip of North Korea.' Since China sent four armies across the Yalu, the British experts were right. America had arrogantly stumbled into a shooting war with the Chinese revolution, ergo a cataclysmic mistake.

There is no doubt that the AIIB is a direct challenge to the World Bank, just as the new BRIC's bank takes aim at the International Monetary Fund (IMF). The two China-led bodies are intended to break Western control over global finance through the Bretton Woods institutions. Yet, whose fault is that? Under the Bretton Woods agreement over the last seventy years, World Bank chiefs were always American by droit de seigneur, while all IMF chiefs were European. While the U.S. clings steadfastly to its IMF veto, Capitol Hill has neither ratified a reform of the IMF quota system which currently gives the U.S. four times as much power as China, nor approved a badly-needed expansion of IMF lending. U.S. Treasury Secretary Jacob Lew has admitted that this foot-dragging has been costly: 'It's not an accident that emerging economies are looking at other places because they are frustrated that the U.S. has stalled a very mild and reasonable set of reforms in the IMF."

THURSDAY, MARCH 26TH

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 9,000 to a seasonally adjusted 282,000 in the week ended March 21st. while continuing claims fell by 6,000 to 2.42 million in the week ended March 14th.

- The Commerce Department reports U.S. non-defense capital goods orders excluding aircraft – a closely watched barometer for business spending plans – declined by 1.4% in February, following a revised 0.1% drop in January.

- Front Page Headline, USA Watchdog – "We Are All Trapped. Finance and economic expert Alasdair Macleod warns: We are witnessing a euro currency, which at any moment triggered by Greece, could begin to unravel. Actually, I think the lack of any history behind the euro is probably the worst thing that it has. People tend to desert the euro incredibly quickly.

  That is one area where it could happen. Look what's transpiring in Japan. It is experiencing a monetary hyperinflation which, at some stage, is going to be price hyperinflation. It's only a matter of time. At present, I can't determine what's good in the world. China is attempting to tackle a credit bubble. I have never known a government to tackle a credit bubble and succeed in managing it. That's just an accident waiting to happen … Last year in America, the Federal Reserve determined how it was going to raise the Federal Funds rate target. That's a complete joke because they can't do it. We are all trapped and it's not going to take very much to change the valuations in the markets. An upward move in the price of gold bullion could occur at the same time and it could be very dramatic.

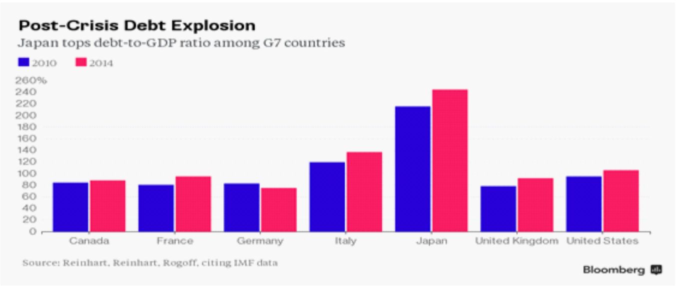
  As far as the Asian Infrastructure Investment Bank (AIIB) is concerned, the reason this bank is being established is twofold. Firstly, China wants to build the largest internal market that the world has ever seen. We are talking about over half the world's population once India joins … From America's point of view, she is losing a huge sphere of influence. The importance of the AIIB is that NATO members' commercial logic is driving policy a lot more than political logic. So, even though they are all members of NATO, they are all deserting the ship as far as America is concerned by signing up to join the AIIB. So, what we have is this new bank which is specifically established to finance huge infrastructure projects in Asia; plus we could be talking about upwards of $25 trillion (U.S.) worth of infrastructure spending. This is enormous and its happening outside the control of America, which is what is upsetting America. In a sense, this is part of multiple processes which will undermine the U.S. dollar collectively. This is just the latest event in a chain of things which have been planned for a very long time. With respect to gold bullion, the whole thing is being mispriced. We've been emptying our vaults and the whole thing is going over to China. The sentiment in the West for gold is so negative, that we see this in all markets. Look at the reverse of it. We had the dotcom bubble back in 2000 because the share prices of tech companies were absolutely ridiculous. That is a valuation extreme. In the case of gold, we have the opposite valuation extreme and it coincides with valuation extremes of super optimism in bond yields, stock markets and high end property.

  As far as China is concerned, their style is not to disrupt the markets. The Chinese act very quietly and their presence is difficult to detect. This is certainly how they have handled their acquisition of gold. I don't think they would want to be blamed for destabilizing western capital markets. What could happen is if we see a chain of events unfolding which lead to our own demise, then the Chinese would protect themselves. There is so little gold left in western vaults now … anything that changes the real sunny outlook for bonds and equities … and for the realization to surface that people don't have any gold; that could drive the gold price sharply higher, because there is not enough supply of gold for people to buy. The gold inventories are very low and any major buyer who enters the market will have to bid up the price in order to accumulate it."

FRIDAY, MARCH 27TH

- Front Page Headline, Bloomberg News – "Reduce Government Debt Creatively: Reinharts, Rogoff. In a new Harvard Kennedy School research study entitled Dealing With Debt, economists Carmen Reinhart, Vincent Reinhart and Kenneth Rogoff warn:

During the financial crisis, sovereign governments accumulated so much debt that they are now forced to think outside the box about how to reduce the debt burden. Realistically, they should have considered a broad swath of options all along. Some cookie cutter solutions include boosting economic growth, operating primary budget surpluses and selling state-owned assets.

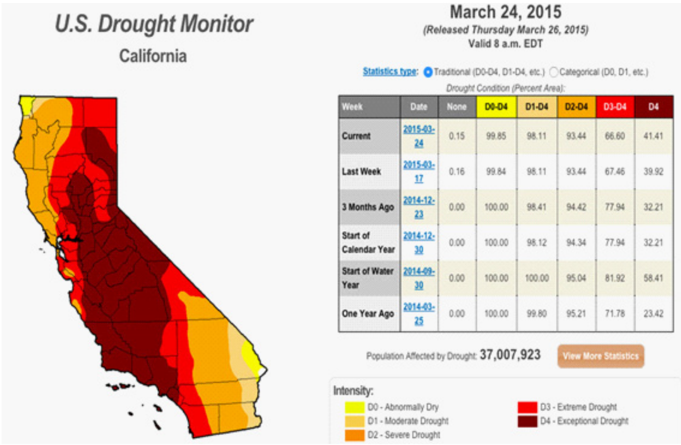


Governments are the last line of resort in many situations, so it is important to maintain the option value of being able to issue sudden large amounts of debt in response to catastrophes; such as, war, financial crisis or otherwise. The message from dozens of episodes of significant debt reductions in advanced economies since the Napoleonic Wars is everything is on the table; such as, taxing the wealthy, boosting inflation and even defaulting on debt obligations."

- Finance Canada reports the federal government recorded a $2.2 billion (CAD) surplus in January and posted a $1.3 billion (CAD) surplus for the first 10 months of the current fiscal year ending March 31st. A continuation of these trends would enable Ottawa to record an annual surplus one year ahead of schedule. In his fiscal update of last November, Finance Minister Joe Oliver had forecast a $2.9 billion (CAD) deficit for fiscal 2015 and a $1.9 billion (CAD) surplus for fiscal 2016.

- The Thomson Reuters / University of Michigan group reports its final consumer sentiment index for March rose to a reading of 93 from the preliminary level of 91.2, but below the final February reading of 95.4. Richard Curtin, chief economist at Michigan's Survey of Consumers, commented: "Importantly, most of the index variation in March was among lower income households, whose budgets are more sensitive to higher utility costs and disruptions in hours of work."

- Front Page Headline, Silver Arrow Partners – "It's the End of March and Already 99.85% of California Is Abnormally Dry. Analyst Tyler Durden warns: 'With NASA scientists warning about California only having one year of water left in its reservoirs, Americans are continuing to ignore the ugly looming reality of water shortages. With summer rapidly approaching, the U.S. Drought Monitoring Service reports that a stunning 99.85% of California is abnormally dry and 98.11% of the state is experiencing drought conditions; leaving over 37 million people in harm's way. See chart below. Right now, the state's backup groundwater supply is rapidly disappearing. California has no contingency plan for a persistent drought like this one – let alone a 20-plus year mega-drought – except apparently, remaining in emergency mode and praying for rain. In short, California has no paddle with which to navigate this crisis.

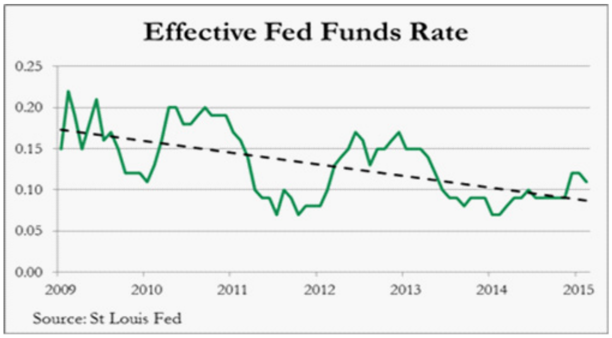


Week	Date	None	D0-D4	D1-D4	D2-D4	D3-D4	D4
Current	2015-03-24	0.15	99.85	98.11	93.44	66.60	41.41
Last Week	2015-03-17	0.16	99.84	98.11	93.44	67.46	39.92
3 Months Ago	2014-12-23	0.00	100.00	98.41	94.42	77.94	32.21
Start of Calendar Year	2014-12-30	0.00	100.00	98.12	94.34	77.94	32.21
Start of Water Year	2014-09-30	0.00	100.00	100.00	95.04	81.92	58.41
One Year Ago	2014-03-25	0.00	100.00	99.80	95.21	71.78	23.42

Several steps must be taken immediately. Firstly, immediate mandatory water rationing should be authorized across all of the state's water sectors, from domestic and municipal through agricultural and industrial. The Metropolitan Water District of Southern California is already considering water rationing by the summer, unless conditions improve. There is no need for the rest of the state to hesitate because the public is ready. A recent Field Poll revealed that 94% of Californians surveyed believe that the drought is serious and 33% support mandatory water rationing. Secondly, the implementation of the Sustainable Groundwater Management Act of 2014 should be accelerated. The law requires the formation of numerous regional groundwater sustainability agencies by 2017. Then, each agency must adopt a plan by 2022 and achieve sustainability 20 years after that. At that pace, it will be nearly 30 years before we even know what is working. By then, there may be no groundwater left to sustain. Thirdly, California needs a task force of thought leaders, which right now begins brainstorming to lay the groundwork for long term water management strategies. Although several state drought task forces have been formed, none is focused on solving the long-term needs of a perennially water stressed California.

California's water management is complex, but the technology and expertise exist to handle this harrowing future. It will require major changes in policy and infrastructure which could take decades to identify and act upon. Today and not tomorrow is the time to begin. Finally, the public must take ownership of this issue. The crisis belongs to all of us and not just to a handful of decision makers. Water is our most important commonly owned resource; but the public remains detached from discussions and decisions. This process works just fine when water is in abundance. However, in times of crisis we must demand that planning for California's water security be an honest, transparent and forward-looking process. Most importantly, we must ensure that there is in fact a credible plan. Call me old-fashioned, but I would like to live in a state which has a paddle, so that it might also still have a creek."

- Front Page Headline, GoldMoney – "Central Banks Paralyzed at the Zero Interest Rate Range. Researcher Alasdair Macleod writes: It is clear from the minutes of the last Federal Open Market Committee (FOMC) meeting – although the Federal Reserve would deny it – that an increase in the Federal Funds rate has been postponed indefinitely. The subsequent rally in the price of gold and the sudden decline in the U.S. dollar tend to confirm this conclusion. The Federal Funds Rate – which is an overnight lending rate for U.S. banks and administered by the Federal Reserve Board – has now been in the 0 – 0.25% target range since December 2008.



However, investors should conclude that U.S. monetary policy itself is stuck in a cul-de-sac with no space to turn. Moreover, when one looks at Japan and the euro zone, we see similar disappointments over the effectiveness of monetary policy … Before the investing public becomes aware of the full ramifications of the problem, more prescient bankers and fund managers will likely reposition their bond holdings; which brings us to gold. Those of us who follow the gold market closely know that for the last three years at least, Asian demand has led to large shifts of gold bullion from western capital markets towards Asia. The behavior of the markets in London and New York already indicate that shortages of physical gold bullion are a delicate problem and this is before markets wake up to the growing likelihood that the Fed cannot afford to foster a higher interest rate environment. As a result, the U.S. dollar itself may be ultimately exposed to a loss of confidence in the foreign exchange markets. The dawning realization that the U.S. dollar is vulnerable after all can be expected to be reflected in a positive sentiment towards gold. Once under way, it could drive the gold price dramatically higher, due to the lack of available bullion supply."

CLOSING LEVELS FOR FRIDAY, MARCH 27TH.		WEEKLY CHANGE
Dow Jones Industrial Average	17,712.66	– 414.99 points
Spot Gold Bullion	$1,199.80 (U.S.)	+ $15.20 per troy oz.
Spot Silver	$16.95 (U.S.)	+ $0.22 per troy oz.
S&P / TSX Composite	14,812.42	– 129.99 points
10 – Year U.S. Treasury Yield	1.96%	+ 3 basis points
Canadian Dollar	79.37 cents (U.S.)	– 0.13 cent
U.S. Dollar Index Future	97.51	– 0.503 cent
WTI Crude Oil Futures	$48.87 (U.S.)	+ $2.30 per barrel
DJIA / Gold Ratio	14.763	– 0.539 point
Gold / Silver Ratio	70.784	– 0.023 point

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