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## Event Horizons

### Global Economy, Markets and Central Banks

The US stock market is an imperfect and increasingly useless reflection of the US and world economies. So while economic numbers have been poor to mixed recently, and conflicts have been escalating across the globe, the US stock market remained gleefully disconnected from the turmoil.

Factors that were once associated with rising stock prices are less relevant today than they were in the past. While the US economy has been weak but not dead, economies of other countries are in worse shape—for instance, the Eurozone countries. In an insightful [article](#) examining the risks spreading from the Eurozone to the already ailing US and Japan, Simon Johnson and Peter Boone summarize the explosive situation resulting from the creation and ultimate failure of “enormous, complex financial structures that can inflict tragic consequences.”

These financial structures are very difficult to regulate and control. Our politicians and financial sectors are needed to prevent these structures from posing serious dangers that will eventually collapse. Reform not only hasn't happened, efforts in that direction have been wholly unsuccessful. [Johnson and Boone](#) point out how the world's political and

financial systems are continuing to build up their monstrosities rather than suppressing them. The Eurozone is hemorrhaging most now, but other nations are not far behind.

“The continuing crisis in the Eurozone merely buys time for Japan and the US. Investors are seeking refuge in these two countries only because the dangers are most imminent in the Eurozone. Will these countries take this time to fix their underlying fiscal and financial problems? That seems unlikely.

“The lesson from all these troubles is clear: the relatively recent rise of the institutions of complex financial markets, around the world, has permitted the growth of large, unsustainable finance. We rely on our political systems to check these dangers, but instead the politicians naturally develop symbiotic relationships that encourage irresponsible growth.

“The nature of ‘irresponsible growth’ is different in each country and region – but it is similarly unsustainable and it is still growing. There are more crises to come and they are likely to be worse than the last one. ([The doomsday cycle turns: Who's next?](#))

The global economy is impossible to fix without radical measures that have little chance of being implemented. Nevertheless, the bandaids (quantitative easings, “money printing”) that the world's central

*“Gambling: The sure way of getting nothing for something.”*

Wilson Mizner

## Army of the Guardians of the Islamic Revolution

The Army of the Guardians of the Islamic Revolution, often called Revolutionary Guards, is a branch of Iran's military, founded after the Iranian revolution. Whereas the regular military (artesh) defends Iran's borders and maintains internal order, according to the Iranian constitution, the Revolutionary Guard (pasdaran) is intended to protect the country's Islamic system. According to some outside observers, it is intended to prevent internal dissident and military uprisings.

The IRGC has roughly 125,000 military personnel including ground, aerospace and naval forces. Its naval forces are now the primary forces tasked with operational control of the Persian Gulf. It also controls the paramilitary Basij militia which has about 90,000 active personnel, and in recent years has developed into a "multibillion-dollar business empire," and is reportedly the "third-wealthiest organization in Iran" after the National Iranian Oil Company and the Imam Reza Endowment.

Since its origin as an ideologically driven militia, the Army of the Guardians of the Islamic Revolution has taken an ever more assertive role in virtually every aspect of Iranian society. Its expanded social, political, military, and economic role under President Mahmoud Ahmadinejad's administration — especially during the 2009 presidential election and post-election suppression of protest — has led many analysts to argue that its political power has surpassed even that of the Shiite clerical system.

The Chief Commander of the Guardians is Mohammad Ali Jafari, who was preceded by Yahya Rahim Safavi.

Source: [Wikipedia.com](http://Wikipedia.com)

banks are progressively applying, in ever greater amounts, are keeping the stock market elevated.

Last week, author [John Rubino](#) noted how trouble in different regions is taking center stage:

"Geopolitics — that is, guns, bombs, and ideology — pushed finance off the front burner. In the East China Sea, for instance, everyone has inexplicably become obsessed with a few barren islands and is apparently willing to trade blood for rocks...

"On the South China Sea, China is a rising power and Japan is declining, which is, historically, a recipe for trouble. They do a huge amount of business together and it's odd that either sees a confrontation as a profitable venture. It's certainly costing both parties in terms of lost production and street security. But they've decided that this is the time, and public opinion seems to favor a confrontation, so here we go.

"Then of course there's the Middle East eruption over an obscure parody film... The video set off an explosion that was waiting for a lit match. ([Anti-American protests continue throughout the Middle East](#)) If not this, something else would have set it off. The West simply has no business occupying that completely incompatible part of the world, and when the true price of oil is calculated to include the cost of Middle Eastern entanglements, we'll find that it's vastly more expensive than any other fuel. The southern half of the US could be covered in solar panels for less than we'll spend on cleaning up this mess in the coming decade.

"And last, but definitely not least, Israel seems to be inching towards the launch button over Iran's nukes... It's not clear that there's a peaceful solution, given the demographics. Muslim populations are soaring and electorates are becoming more resentful and fundamentalist. Israel won't accept nuclear weapons a few hundred miles away, and the US has absolutely no idea what to do, and no money which with to do it."

We are seeing the enactment of John's words: "Financial crises produce geopolitical crises." The consequences of reckless borrowing of trillions of dollars over the course of several decades, bankrupt nations, impov-

erished peoples, rage and social unrest. ([A Bankrupt World Is An Unstable World.](#))

Instability in the Middle East is a given, but the frequency of overt incidents seems to correlate with intensifying financial stress. US naval presence in the Gulf is "soaring to a concentration not seen since the last Gulf war." ([Head Of Iran's Revolutionary Guards: "A War With Israel Will Occur"](#)) According to the commander of Iran's Revolutionary Guards, Israel will eventually go beyond threats and attack Iran. ([Reuters](#))

### Asian Headwinds

Western investor, Jim Chanos "[takes issue](#) with any corporate accounting in China." Corporate profits in China are imploding and the country is dealing with capital flight, according to Chanos, who has lately been covering his short positions.

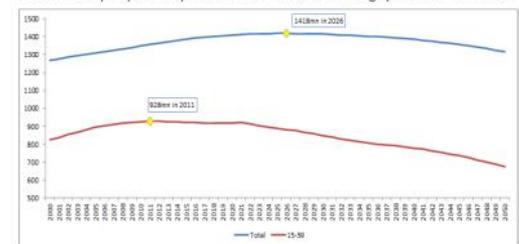
China is responsible for over 40% of the world's GDP growth, but the population is aging (table and chart below). An aging population means that consumption of goods and services, and expected growth rates, will have to slow down.

#### People aged 65 and over

- 2010: 110 million
- 2020: 166 million
- 2030: 229 million
- 2040: 317 million
- 2050: 331 million
- 2060: 357 million

Source: UN

In next four decades, China's working age population will decline by 200 million people — equivalent to ≈100 times Singapore's labor force



Source: CB population model

Japan's demographics are similar; Japan also has an extreme debt/GDP ratio greater than 200%.

After reporting weak guidance on slowing global growth, [Fed Ex CEO](#) Fred Smith discussed the global business situation and how it is affecting China:

(Click on charts to enlarge)

“Exports around the world have contracted, and the policy choices in Europe and the United States and China are having an effect on global trade. Global trade has grown faster than GDP, except for the 2000, 2001 melt-down and 2008 and 2009, for 25 years. And over the last few months, that has not been the case. So what’s really going on is that exports and trade have gone down at a faster rate than GDP has...

“I can tell you this on China. The locomotive that has driven China’s growth is its export industries. And with the situation in Europe and, to a lesser degree, in North America, that is a significant issue for the Chinese economy. Now the consumer consumption in China is not increasing at a significant rate contrary to everybody’s hopes. While exports from, say, the United States into China have grown, they are dwarfed by the exports from China into the United States. And as the big economies in Europe and the U.S. have grown or contracted — grown at a far lesser rate or, in the case of certain European countries, have contracted, that’s reflected in the numbers in China. And you can’t escape that. **I’ve been somewhat amused watching some of the China observers, I think, completely underestimate the effects of the slower exports on the overall China economy.**” ([FedEx CEO: I'm Amused Watching Observers 'Completely Underestimate' What The Export Slowdown Is Doing To China](#), via [Cullen Roche](#))

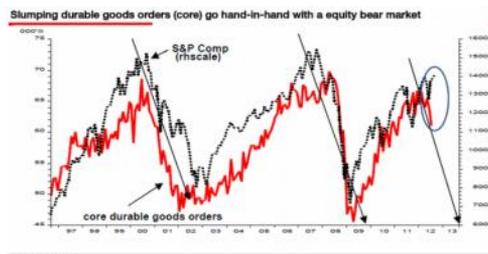
## US Durable Goods and the S&P

In the US, durable goods orders generally parallel the S&P, although the S&P often overshoots the durable goods trends. With Bernanke's new QE-infinity program in the background (\$85 billion going to [Primary Dealers](#) each month), it’s unknown whether the correlation will remain intact. The Primary Dealers will trade this cash into risky assets (commodities, stocks), driving up prices and tipping the balance towards a higher stock market.

## Dow Theory—Divergence

The idea behind the Dow Theory is that when transportation (TRAN) outperforms the Dow (INDU), the real economy (consumption requiring transport) is outperforming the stock market. Conversely, when the Dow outperforms TRAN, the stock market is outperforming the real economy. The diver-

gence since the 2011 high in TRAN shows that **the stock market is outperforming the real economy by a wide margin.**



We’ve come to this conclusion in other ways as well. The Federal Reserve’s manipulation of US the money flow, discussed [in detail last week](#), results in macro-forces - MONEY PRINTING - overpowering what used to be a tighter connection between the economy and stocks.

Since the Dow Theory was formulated in the 1920s, there has not been a period when the stock market has been so massively supported by the Fed and, presumably, the US government. We are now in such a period. The Fed openly admits that its goal is to boost asset prices, including equities. It claims that the “wealth effect” will drag the real economy up with it. The wealth effect has already been shown to fail, but the Fed is persisting nonetheless. Theories and correlations that were once viable indicators of stock market action can no longer be trusted. Greater powers - central banks - and greater forces - keyboard printed money - now dominate the trends in the stock market.



What can’t end well, won’t. But in the meantime, we are attempting to structure our investments to keep us from getting crushed in the ruins.

## Durable Goods

In economics, a durable good or a hard good is a good that does not quickly wear out, or more specifically, one that yields utility over time rather than being completely consumed in one use. Items like bricks could be considered perfectly durable goods, because they should theoretically never wear out. Highly durable goods such as refrigerators, cars, or mobile phones usually continue to be useful for three or more years of use, so durable goods are typically characterized by long periods between successive purchases.

Examples of consumer durable goods include cars, household goods (home appliances, consumer electronics, furniture, etc.), sports equipment, and toys.

Nondurable goods or soft goods (consumables) are the opposite of durable goods. They may be defined either as goods that are immediately consumed in one use or ones that have a lifespan of less than 3 years.

Examples of nondurable goods include fast moving consumer goods such as cosmetics and cleaning products, food, fuel, beer, cigarettes, medication, office supplies, packaging and containers, paper and paper products, personal products, rubber, plastics, textiles, clothing and footwear.

While durable goods can usually be rented as well as bought, nondurable goods generally are not rented. While buying durable goods comes under the category of Investment demand of Goods, buying Non-Durables comes under the category of Consumption demand of Goods.

Source: [Wikipedia.com](#)

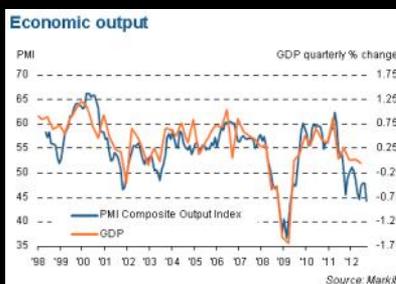
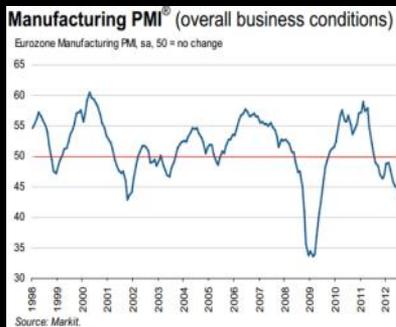
(Click on charts to enlarge)

## Market-Moving Forces

### Empire State Survey Index

The NY Empire State Index is a regional economic indicator published by the Federal Reserve Bank of New York and released around the middle of the month. It's considered to be an indicator of economic conditions in one of the most populated states in the U.S. The survey is distributed to roughly 175 manufacturing executives and asks questions intended to gauge both the current sentiment of the executives and their six-month outlook on the sector.

Source: [Investopedia.com](http://Investopedia.com)



1. [Sep. Empire State Survey](#): Manufacturing -10.41 vs. -2.0 expected. New orders dropped to -5.5; the shipments index fell six points to 4.1. Employment levels and sentiment also slipped lower.
2. Morningstar reported U.S.-stock funds and ETF's tallied [another month of outflows](#) in August, losing \$22.4B. This was the worst monthly outflow in two years, and the fifth worst in the past five years. Investors were bullish on fixed income, pouring \$26.4B into taxable-bond funds and another \$5.6B into municipal-bond funds.
3. [September Philly Fed Business Outlook](#): -1.9 vs. -4.0 expected. Leading the improvement was a rise in New Orders to 1.0 from -5.5. Inventories declined to -21.7 from -6.9.
4. Home builders ([XHB](#)) gained on surging single-family [housing starts](#) and [existing home sales](#) rising at the highest pace since the first-time homebuyer tax credit artificially sparked sales in mid-2010. But [hold the champagne](#). Kermit Baker, at [Harvard University's Joint Center for Housing Studies](#), sees single-family starts "not even halfway back to where we should be in terms of long-term trends." Mortgage rates [tumbled to new lows](#). The average 30-year fixed rate declined to its record low at 3.49%, and the average 15-year fixed fell to a new low of 2.77%.
5. [California's "wall of debt" is even bigger](#): Governor Jerry Brown recognized a "wall of debt" of \$28B when he came into office. That wall is actually \$167B-\$335B, according to the State Budget Crisis Task Force.
6. [U.S. Markit Flash PMI](#): PMI readings above 50.0 signal an improvement over the prior month, while readings below 50.0 indicate a decline. "The PMI averaged 51.5 in the three months to September, down from 54.2 in the three months to June, pointing to the weakest quarterly performance since Q3 2009... Chris Williamson, Chief Economist at Markit said: 'U.S. manufacturers reported another month of tough business conditions in September, rounding off the weakest quarter for three years... The principal cause of weakness remains the export market, with new export orders falling for the fourth successive month, and at an advanced rate of decline, reflecting the economic downturn in the Eurozone and slower growth in previously strong markets such as China and Japan.'" ([Markit](#))
7. The [JP Morgan Global Manufacturing PMI index](#) is a GDP-weighted composite of various countries' latest monthly PMI values. Values below 50 indicate a worldwide contraction. The August Global PMI reading was 48.1, the lowest reported index value since June 2009. It marked the third consecutive month of contraction. Data also showed New Orders falling and input prices rising. The fall in New Orders suggests future contraction. Higher input costs suggests a squeeze in company margins.

### Global Manufacturing PMI™ Summary

50 = no change on previous month.

	Jul	Aug	Change	Summary, rate of change
Global PMI	48.4	48.1	-	Contracting, faster rate
Output	48.8	47.4	-	Contracting, faster rate
New Orders	47.1	46.8	-	Contracting, faster rate
Input Prices	44.8	49.2	+	Falling, slower rate
Employment	49.3	49.6	+	Falling, slower rate

(Click on charts to enlarge)

# Charting the Universe

## Dow Theory Divergences

Courtesy of Springheel Jack. Springheel Jack's charts can be followed on a daily basis at his website, [Channels & Patterns](#).

Dow Theory divergences are worth keeping an eye on. The theory was postulated by Charles Dow and elaborated on after his death in 1902. It is based on 255 editorials Mr. Dow had written in the Wall Street Journal.

Dow Theorists monitor divergences between two Dow indices: the main Dow Industrials index (DOW) and the Dow Transports (TRAN) index. DOW represents equities, while TRAN is considered to mirror the real economy. Divergences between the two are signals that a major reversal is coming, however, these divergences may persist for a while before the reversal ensues.

On the chart below, there are two divergences, long and short term. During the longer term divergence, TRAN hit new all time highs in 2011 that have not been confirmed by the DOW making new highs. DOW is now within striking distance of making an all time high however, and if we see the usual QE-fueled bull run up, then that divergence may soon disappear.

The shorter term divergence shows that TRAN has seriously underperformed DOW since the 2011 high. At the close on Friday, TRAN was 9% below its 2012 high, and almost 13% below its 2011 high. TRAN has failed to confirm the new high on DOW over the April 2012 high. The divergence grew very wide this week as DOW has traded sideways while TRAN was hammered by downgrades of major TRAN component companies due to weak sales and profits.



TRAN broke down from a large symmetrical triangle and closed below a three month trading range on Friday. Having al-

ready given back 80% of the gains from the June lows, a test of June's lows looks likely.

With DOW at new highs for 2012, up almost 13% since the June low, the contrast between the two is striking. This reflects the divergence between the real economy, which is weak, and equities, which are being actively supported by the Fed. The Fed is determined to increase asset prices in the hope that will ultimately boost the economy and improve a dire unemployment situation.

The TRAN daily chart looks bearish, following Friday's breakdown:



Does the divergence between equities and the economy still matter in this Fed-enhanced environment? There hasn't been a period in the history of Dow Theory in which the Fed has so blatantly supported equities in the teeth of a deteriorating economy. It may be that this current divergence is not forewarning a reversal because the Fed is working to keep stock prices higher.

QE-3 (or QE-Infinity) may change the usefulness of Dow Theory.

From a technical standpoint, ignoring the Dow Theory prediction for a reversal in stocks, more upside in equities during QE3 looks likely. As QE hasn't had much noticeable effect on the real economy in the past, that will stretch the divergence between TRAN, reflecting the real economy, and DOW (equities), even further. Only time will tell whether and when a reversion to the mean will occur.

More at this [link](#)

## Dow Jones Transportation Average

The Dow Jones Transportation Average (DJTA, also called the "Dow Jones Transports") is a U.S. stock market index from Dow Jones Indexes of the transportation sector, and is the most widely recognized gauge of the American transportation sector. It is the oldest stock index still in use, even older than its better-known relative, the Dow Jones Industrial Average (DJIA).

The average was created on July 3, 1884 by Charles Dow, co-founder of Dow Jones & Company, as part of the "Customer's Afternoon Letter". At its inception, it consisted of eleven transportation-related companies: nine railroads and two non-rail companies. They were the following:

- Chicago, Milwaukee and St. Paul Railway
- Chicago and North Western Railway
- Delaware, Lackawanna and Western Railroad
- Lake Shore and Michigan Southern Railway
- Louisville and Nashville Railroad
- Missouri Pacific Railway
- New York Central Railroad
- Northern Pacific Railroad preferred stock
- Pacific Mail Steamship Company (not a railroad)
- Union Pacific Railway
- Western Union (not a railroad)

As a result of the dominating presence of railroads, the Transportation Average was often referred to as "rails" in financial discussions in the early and middle part of the 20th Century.

Source: [Wikipedia.com](#)

## Spring-heeled Jack

Spring-heeled Jack is a character in English folklore of the Victorian era who was known for his startling jumps. The first claimed sighting of Spring-heeled Jack was in 1837. Later sightings were reported all over England and were especially prevalent in suburban London, the Midlands and Scotland.

Source: [Wikipedia.com](#)

**Hedge**

A hedge is an investment position intended to offset potential losses/gains that may be incurred by a companion investment. In simple language, a hedge is used to reduce any substantial losses/gains suffered by an individual or an organization.

A hedge can be constructed from many types of financial instruments, including stocks, exchange-traded funds, insurance, forward contracts, swaps, options, many types of over-the-counter and derivative products, and futures contracts.

Public futures markets were established in the 19th century to allow transparent, standardized, and efficient hedging of agricultural commodity prices; they have since expanded to include futures contracts for hedging the values of energy, precious metals, foreign currency, and interest rate fluctuations.

Source: [Wikipedia.com](http://Wikipedia.com)

**KISS for Traders**

Courtesy of Allan Harris of [Allan Trends](#)

**New Signals**

- SPX Hourly Trend Model →LONG  
(hourly charts are specifically for day-trading)
- TJX Daily Trend Model →SHORT
- GS Weekly Trend Model →LONG

**Weekend Market Commentary**

Is there any reason to not trade this model, or for that matter, to trade only this model?



VXX Trend Model & XIV

Boredom would be one reason. In over three months, there has only been a single trade. The success of this model is especially satisfying because it represents a refusal to heard, to graze in the crowd of the naysayers who complain that volatility (VIX, VXX, XIV) is a rigged game, only useful as a hedge, or a very short-term trade. What our algorithm says is a trend is a trend, whether it be in volatility, stocks, precious metals or entrails. Trend following is a just too simple minded approach to trading to garner much respect from most market technicians.

For me, the less lines and noise on the chart, the better I see what is really happening.



SLV & GLD Daily Trend Models

Silver and Gold are quickly becoming my second favorite trend models. As I suggested so many times, precious metals are some of the best trending commodities and both SLV and GLD have provided excellent trends to participate in this summer. Going into fall, they are both still Long, but look at all of that air between price and the trend line. That space may need to get filled before another leg up.

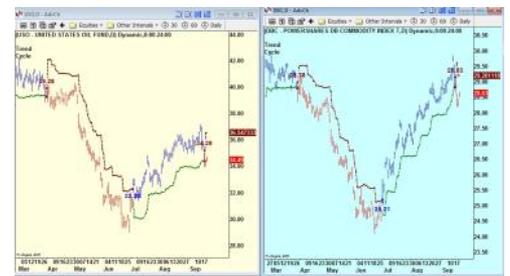
As for the indices, let's take a look at the performance of the Dow over the summer:



DJIA Daily Trend Model

What strikes me most about this chart are the two excellent trend signals. But also note how well the trend line provided support and/or entry points all of the way up. That also suggests that should that trend/support line ever get broken, we could be looking at a sizable decline. As always, the system will have us Short just after that decline gets going.

The summer rally in stocks is mirrored by summer rallies in commodities, particularly DBC and USO. As is apparent in the their respective charts below, the times they may be a changin'.



DBC & USO Daily Trend Models

The trend models highlighted in this issue constitute a core portfolio, well diversified and still manageable on a day-to-day basis. VXX/XIV for volatility and simply just stellar results, DJIA for stock market direction, GLD/SLV for precious metals (and global financial uncertainties), DBC for a basket of hard assets and USO because crude oil is such an integral part of world economies. Not that the other trend models should be dismissed, but if I were starting this service now, I would be very tempted to go with just these models and of course, up the subscription price to compensate me for the simplification. There is some logic in there..... somewhere.

For more, click [here](#).

[Click here for a risk free trial to Allan's standard service \(\\$100/mo.\)](#) Allan's premium service (which includes the standard service) is for more active traders [click here for a risk free trial](#).

(Click on charts to enlarge)

## Sector Exploration - Energy

### BP plc (ADR)

(BP, \$43.00)

By Pharmboy

British Petroleum (BP, \$43) has not fully recovered from its [Gulf of Mexico oil spill](#) and still faces several headwinds. However, it's stock and quarterly dividend are solid.

In the Market Shadows [Virtual Portfolio](#), I am going to SELL two January 2014 \$35 puts for \$2.93 or better on Monday. Selling puts will allow us to collect the \$0.48 dividend. If BP remains above \$35 through the options expiration date in January, 2014, we keep the \$2.93 and do not end up owning any shares. If BP closes below \$35 at options expiration, we will be obligated to buy the stock for \$35/share (\$8 less than the current share price).

For a more conservative, non-options long position, I like simply buy a small position in the stock.

Alternatively, for those that invest in options, a covered call position would offset a decline in the stock price, but limit the upside. For example, buying 100 shares of stock for \$43 and selling one January 2013 call for \$2.05.



### BP plc (ADR) (BP)

Range	42.97 - 43.39
52 week	33.62 - 48.34
Open	43.26
Vol / Avg.	3.37M/4.56M
Mkt cap	136.42B
P/E	7.99
Div/yield	0.48/4.47
EPS	5.38
Shares	3.17B
Beta	1.24
Inst. own	12%

**Disclosure:** MarketShadow writers may own stocks discussed in this section and may buy or sell these stocks at will, with no notice, in the future. Click on this [link](#) for the Market Shadow's [Virtual Portfolio](#).

## Sector Exploration - Technology

### Agilent Technologies Inc.

(A, \$39.00)

By Pharmboy

Agilent Technologies (A, \$39) is a measurement company providing bioanalytical and electronic measurement solutions to the communications, electronics, life sciences and chemical analysis industries.

In the [virtual portfolio](#), I am going to SELL two January 2013 \$32 puts for \$0.60 or better. As long as A stays above \$32 through the January options expiration date, we keep the 60 cents in the virtual portfolio. If A drops below \$32, at options expiration, we will add 200 shares of A to our virtual portfolio for \$32/share (\$7 less than the current price).

For a less aggressive long position, I like buying one hundred shares of A and selling a January 2013 \$39 call for about \$2.50.



### Agilent Technologies Inc. (A)

Range	39.00 - 39.82
52 week	28.67 - 46.28
Open	39.53
Vol / Avg.	3.53M/4.11M
Mkt cap	13.59B
P/E	13.52
Div/yield	0.10/1.03
EPS	2.89
Shares	348.44M
Beta	1.49
Inst. own	83%

(Click on charts to enlarge)

## Nikolai Kondratiev

Nikolai Dmitriyevich Kondratiev was a Russian economist, who was a proponent of the New Economic Policy (NEP), which promoted small private, free market enterprises in the Soviet Union. He is best known for proposing the theory that Western capitalist economies have long term (50 to 60 years) cycles of boom followed by depression. These business cycles are now called "Kondratiev waves".

Kondratiev's economic cycle theory held that there were long cycles of about fifty years. In the beginning of the cycle economies produce high cost capital goods and infrastructure investments creating new employment and income and a demand for consumer goods. However, after a few decades the expected return on investment falls below the interest rate and people refuse to invest, even as overcapacity in capital goods gives rise to massive layoffs, reducing the demand for consumer goods. Unemployment and a long economic crisis ensue as economies contract. People and companies save their resources until confidence begins to return and there is an upswing into a new capital formation period, usually characterized by large scale investment in new technologies.

In September 1938 during Stalin's Great Purge, he was subjected to a second trial, condemned to ten years without the right to correspond with the outside world. However, Kondratiev was executed by firing squad on the same day the sentence was issued. Kondratiev was 46 at the time of his execution.

Source: [Wikipedia.com](http://Wikipedia.com)

## Glimpse of the Future

In the next few weeks, Spain may formally ask the European Central Bank for assistance. Speculating on Spain, Zero Hedge noted, "The one thing that will force countries to request a bailout is the inevitable outcome of soaring budget deficits: i.e., running out of cash (as calculated here previously, [an event Spain](#) has to certainly look forward to all else equal). Which simply means that sooner or later Mariano Rajoy will have to throw in the towel and push the red button, knowing full well it most certainly means the end of his administration, and very likely substantial social and political unrest for a country which already has 25% unemployment, all just to preserve the ability to fund its deficits, instead of biting the bullet and slashing public spending (and funding needs), which too would cause social unrest - hence no way out." ([First Spanish Bailouts Conditions Revealed: Pension Freeze, Retirement Age Hike](#))

Moving on from Spain, tensions are also escalating between Japan and China. [Zero Hedge reported](#), "The thing is China may or may not do without Japan, it however can't exist, at least for now, without the US. And vice versa. So any attempts to drag the US into the conflict will backfire severely on Japan..."

"Of course, all of this is well-known, as is the reality that the situation will escalate until someone has to decide whether to truly push it to the next level, or step down, humiliating his country in the process, something Asian states have never been too keen on. What, however, was the most important article in today's Pacific Rim press is [this one](#) which has nothing to do with Japan, and everything to do with China's expanding zone of influence: 'China's top security official on Saturday made a surprise visit to Afghanistan, the first time in 46 years that a Chinese leader set his foot on the soil of this landlocked Asian country.'"

Could this have anything to do with a poppyseed and opium trade power vacuum, and up to \$1 trillion in ["untapped minerals"](#)? ([China Officially Warns Japan Not To Infringe Its Territorial Sovereignty; Japan Reciprocates](#))

It is often [proclaimed](#) that, 'History repeats itself.' However, in cycles spanning less than [cosmological](#) time periods, this is untrue. [Mark Twain](#) was more precise: **"History does not repeat itself, but it does rhyme."**

Cycles repeat, but new permutations can look different than prior ones. [John Ru-](#)

[bino](#) wrote a fascinating piece on the Long Wave story. Examining the well-known Kondratieff Cycle, John explored this century's added twist—the ability of central banks to create money out of thin air.

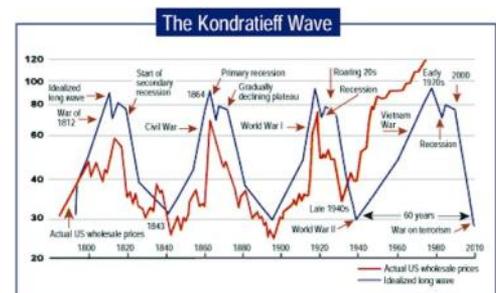
The Kondratieff pattern is on track to teach us the consequences of unlimited debt creation. While we cannot predict exactly how or when our lives might be turned upside down by the natural course of events, the times directly ahead are likely to rhyme with the age-old cycle.

### [The Long Wave Versus the Printing Press: Central Banks Go All-In](#)

By John Rubino

"The short version of the Long Wave story is that we're emotional creatures with limited memories. For as long as there have been markets, we've been passing through the same sequence of mental states, beginning with anxious conservatism in the aftermath of hard times, followed by cautious optimism and finally – as the original "depression-era" generation is replaced by their clueless grandkids — let-it-all-hang-out financial excess. A horrendous debt-driven crash then resets the cycle.

"There are several variations of Long Wave theory, but the most famous is based on the work of Nicolai Kondratieff, a Russian economist who gave the various stages seasonal names, with summer and autumn denoting the peak of financial speculation and winter the aftermath of the resulting crash.



"The most recent cycle began after World War II and lasted until the tech stock crash of 2000, which means according to this theory we've already spent a decade in Kondratieff Winter. But the headline statistics published by the US and other major governments tell a different story, in which we have an anemic economy but not a depression."

Did the cycle get suspended in midair? John argues that it did, because central banks have a new set of tools. In past cycles, money was

real, limited in supply. But not anymore. Now, the money at the base of the financial system can be printed into existence. “Since the US broke the final link between national currencies and gold in 1971, everyone has been running fiat currencies that can be created in infinite quantities and depend for their value on the trust we place in the competence and honesty of our leaders.”

World governments acting in concert with central banks have been able to use unlimited credit to stem the flow of an inevitable debt implosion. The ever-lower interest rates and creative asset purchase plans have extended the Kondratieff cycle’s usual time-frame. As a result, the global economy continues to grow, anemically, and people are still hoping for a solution.

Meanwhile, unfunded liabilities, derivatives and “other exotica” continue piling up, but the Long Wave is still pressuring the global financial system. Without central bank life-support, John argues, the European, American and Japanese economies would rapidly implode.

“Over the past couple of weeks the [European and US central banks](#) have accepted this reality and announced open-ended asset purchase plans, implying that zero interest rates and unrestrained money printing will go on for as long as the markets keep accepting fiat currency.

## Data and Events

Mon, September 24	Tue, Sep 25	Wed, Sep 26	Thu, Sep 27	Fri, Sep 28	Legend
Japan BoJ Minutes Released Sunday	Germany GfK Consumer Confidence Survey 2:00 AM / 5.9	Germany CPI (YoY) 8:00 AM / 2.0%	Germany Unemployment Rate 3:55 AM / 6.8%	China Leading Index	Credit Market
Germany IFO Business Climate 4:00 AM / 102.5	Switzerland UBS Consumption Indicator 2:00 AM / 2.5%	Germany CPI – EU Harmonized (YoY) 8:00 AM / 2.1%	Great Britain GDP (YoY) Q2 4:30 AM / -0.5%	France GDP Q2 1:30 AM / 0.3%	
Germany IFO Current Assessment 4:00 AM / 111	Canada Retail Sales 8:30 AM / 0.2%	US New Home Sales 10:00 AM / 380K	Euro-Zone Business Climate Indicator 5:00 AM / -1.2	Germany Retail Sales 2:00 AM / -0.9%	Energy
Germany IFO Expectations 4:00 AM / 95	US Consumer Confidence 10:00 AM / 63.2	EIA Petroleum Status Report 10:30 AM	Euro-Zone Consumer Confidence 5:00 AM / -25.9	Switzerland KOF Leading Indicator 3:00 AM / 1.5	International
US Dallas Fed Mfg Survey 10:30 AM	US House Price Index (MoM) 10:00 AM / 0.7%	5-Year Note Auction 1:00 PM	US GDP Q2 8:30 AM / 1.7%	Canada GDP 8:30 AM / 2.0%	Fed Speak
3-Month Bill Auction 11:30 AM	4-Week Bill Auction 11:30 AM	China Industrial Profits YTD 9:30 PM	US Durable Good Orders 8:30 AM / -5.0%	US Personal Income 8:30 AM / 0.2%	
6-Month Bill Auction 11:30 AM	2-Year Note Auction 1:00 PM		US Initial Jobless Claims 8:30 AM / 375K	US Personal Spending 8:30 AM / 0.5%	
US Fed Williams Speaks 3:10 PM			US Pending Home Sales 10:00 AM / 14.2%	US Pers. Consumption Expenditure Core (YoY) 8:30 AM / 1.6%	
			EIA Natural Gas Report 10:30 AM	US U. of Michigan Confidence 9:55 AM / 79	
			7-Year Note Auction 1:00 PM		
			Japan Nomura/JMMA Mfg PMI 7:15 PM		
			Japan Jobless Rate 7:30 PM / 4.3%		
			Japan CPI 7:30 PM / -0.5%		
			Japan Industrial Production 7:50 PM / -3.4%		
			China HSBC Mfg PMI 10:30 PM		

“Does this mean the contest is over and the printing press has won? No, but it means that the analytical framework has to shift from linear to nonlinear systems... Double the size of a financial system and its chance of coming undone rises by ten times or more.

“By going all-in, the major central banks are committing to a progressive increase in the complexity of global financial markets. As more individuals and pension funds abandon cash and safe-but-low-yielding paper for higher-yielding but more-volatile stocks and junk bonds, the system grows ever-more fragile, making a crash both likely and more destructive...

“So here we are. The conditions for a global catastrophic failure are in place... There’s no way to know which dollar (or which external event) will start the avalanche, but without doubt something will.”

It might be a loss of confidence in the dollar, euro and yen, manifesting in hyperinflation. It might be the bond markets discovering they’re being conned, “pushing interest rates up in a spasm that’s too fast and widespread for central banks to counter...” We don’t know, we can only watch and try to prepare for the most salient risks. ([The Long Wave Versus the Printing Press: Central Banks Go All-In](#))

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