

Princeton Economics International

*Forecasting The*  
*World*



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## 15th Semi-Annual PEI Tokyo Seminar



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## Global Perspective - Key to Success

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By monitoring capital flows, the PEI computers have successfully forecast every major turn in the world capital markets for more than 20 years. Everything from the 1980 Inflationary peak, the 1987 Crash, 1989 Crash in Japan, Bull Markets of the US and Europe, the Asian Crisis, Collapse of Russia and the July 20th, turning point of 1998.

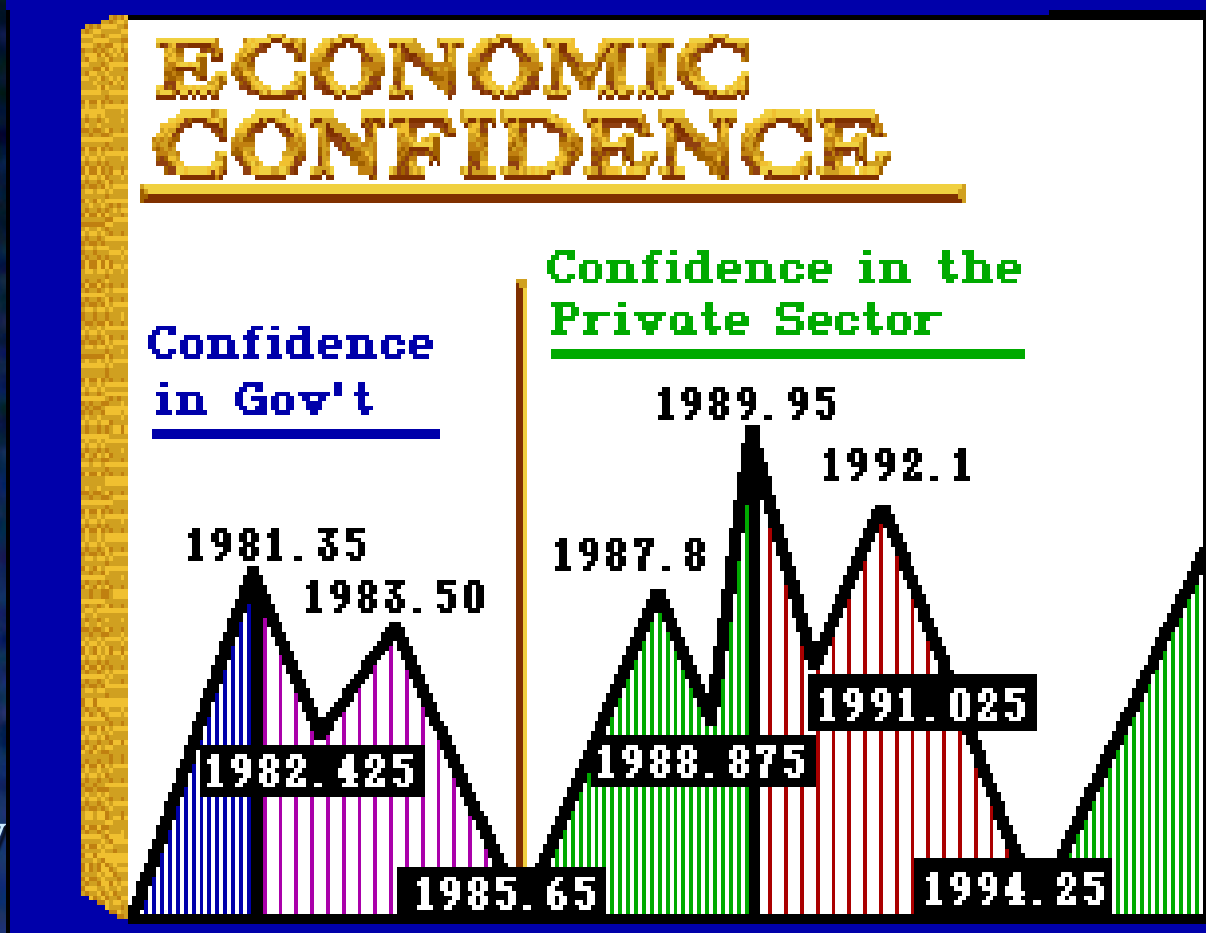


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Since 1985 and the formation of the G5 (now G7), the world economy has become far more complicated than anyone could possibly imagine. In the post-1985 era, the correlation factor of the global economy has been altered.

Today, global markets act together 85% of the time making decisive turning points (either highs or lows) compared to 43% pre 1985.





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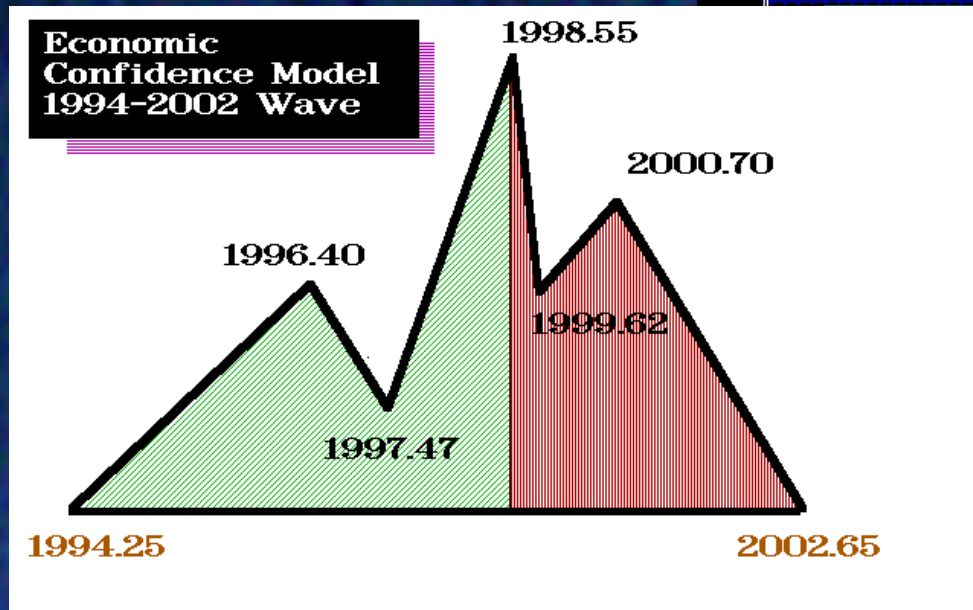
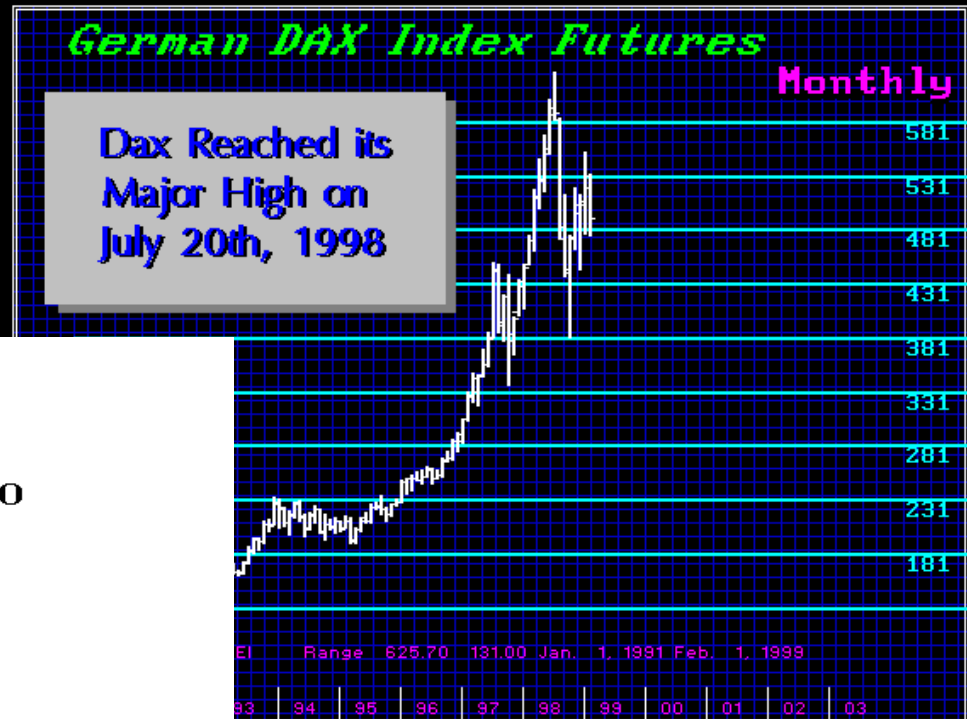
## A few of the major events since 1981

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- 1981.35 - peak in interest rates
- 1982.42 - yen low against US\$, Dow Jones low
- 1985.65 - US\$ high birth of G5, commodity low
- 1987.80 - Crash of October 19th
- 1989.95 - Major peak in Japan
- 1994.25 - Peak in Asia bottom in US & Europe
- 1998.55 - Collapse of Russia, Peak in Europe
- 2000.70 - (?)
- 2002.85 - (?)

## July 20th - 1998.55

Peak in Europe  
 Peak in Russia & China  
 Peak in Liquidity



## July 20th, 1998

This turning point has been far more important than most people realize. Its impact goes beyond merely Russia and European share markets. It has been profound in terms of currencies and it has unleashed the worst liquidity crisis of the century.





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## Liquidity Crisis Poses the Great of all Dangers

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The liquidity crisis has undermined the entire capital market structure. The collapse of Russia has caused a major and serious contraction within the derivative markets that had added untold depth and liquidity to the marketplace as a whole. With derivative markets in chaos, trading volumes have not only been reduced, but the introduction of the Euro has also contributed to the crisis by removing 11 currencies from the trading arena.

This crisis in liquidity has now raised the possibility that much higher volatility will affect the all markets worldwide.





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## 80% of all Over-the-Counter Derivatives Result in Loss

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The most dangerous products are the ones that appear to cost nothing. They involve the writing of an option.

The Derivative markets are dying due to unprofessional solicitation of clients, the failure to properly disclose the risks and the lack of concern for client survival.

The peak in derivative liquidity took place with the July 20th global turning point. They will now continue to shrink and the banks involved will be forced to curtail leverage or face legal consequences.



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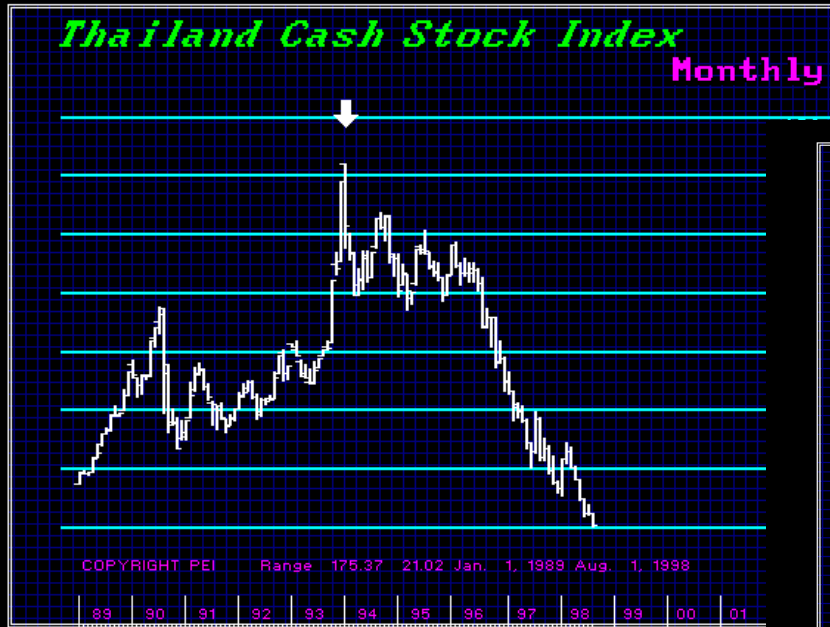
## Collapse of Emerging Markets is only the Beginning

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Collapse of Russia and the end of an era for Emerging Market Investment. Its impact will continue to put pressure on the entire world economy and threaten global economic stagnation going into 2002/2003.

It has been the failure to understand the collapse in the emerging markets as a whole that raises the risk of greater government intervention, which could spark a completely new form of protectionism.

The Asian Crisis was a Debt Crisis not Currency



The Asian Crisis was created by a shift in global investment following the Crash of '89 in Japan. International capital began to move into Asia in 1990 reaching a peak in 1994. The Currency was the last to give way in 1997 following the asset peak in 1994.



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## The Rising Trend of Organized Trading

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Collapse of Russia and Long-Term Capital Management

Bailout was a covert bailout of the New York Investment Banks not a hedge fund that was not within the Scope of power of the Federal Reserve.

Beware the Japanese yen is now the next target of this organized trading. They are targeting the March rollover knowing that Japanese take their money home March 31 and reinvest in April – lock in the yen this time!



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## The Rising Trend of Organized Trading

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The Asian Currency Crisis was a targeted organized trade where Investment Bankers and Hedge Funds ban together and intensify their trading.

The first blatant attempt at Organized Trading was the 1992 attack on the British pound peg within Europe. While there is a lead player who get the press as was the case with Soros, in truth, there is a “club” that joins and trades together. The recent Long-Term Capital Management collapse is another organized trade where the “club” targeted Russian bonds.

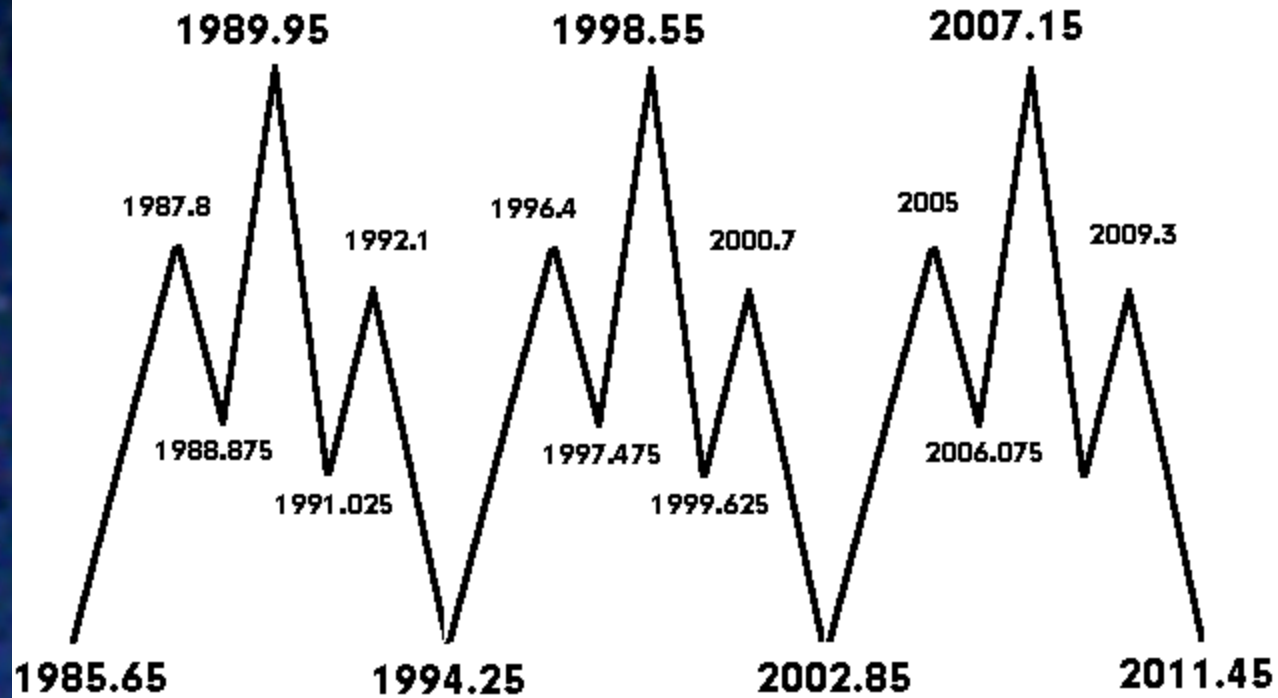


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## Economic Confidence Model <sup>TM</sup>

*8.6 Year Global Business Cycle*



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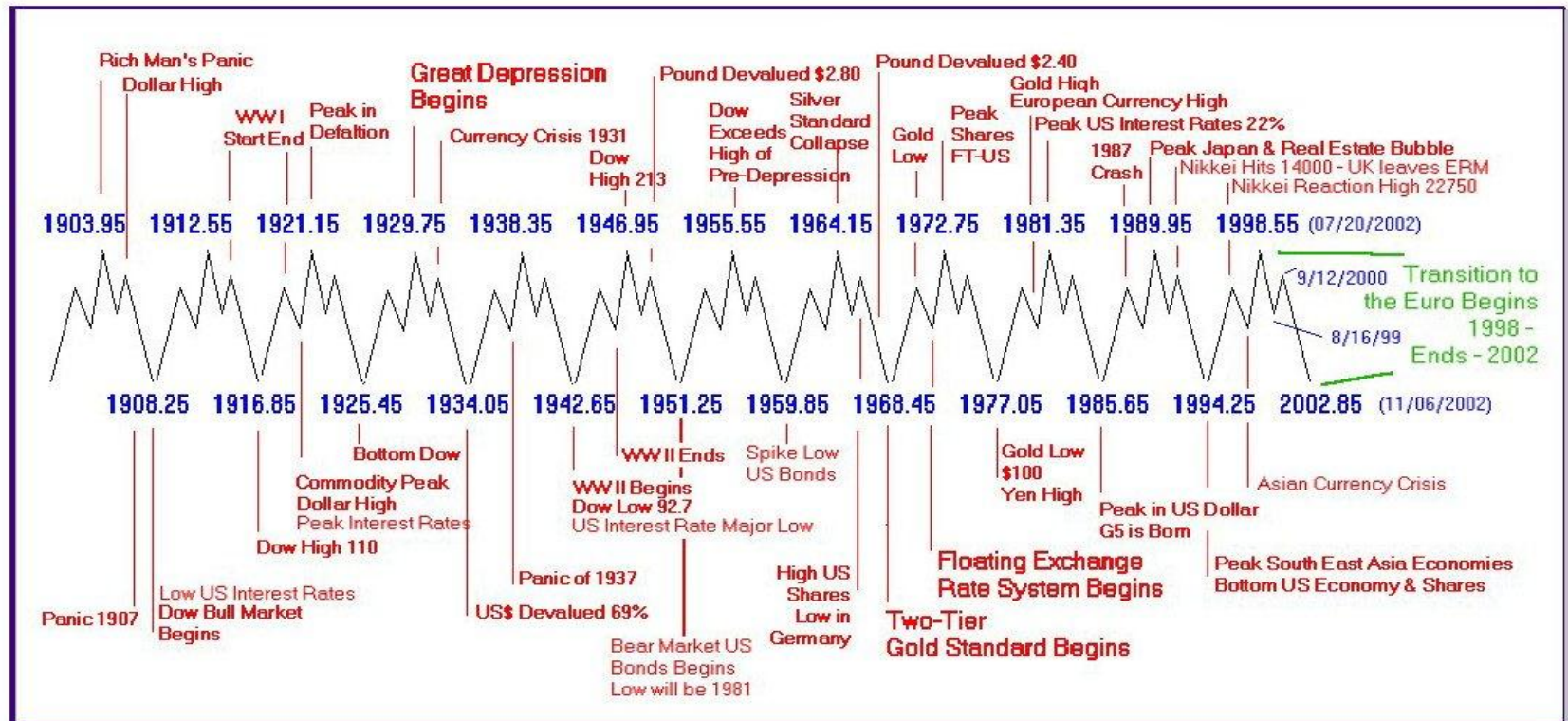


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## The Nature of Capital Has Never Changed

### Princeton Economic Confidence Model



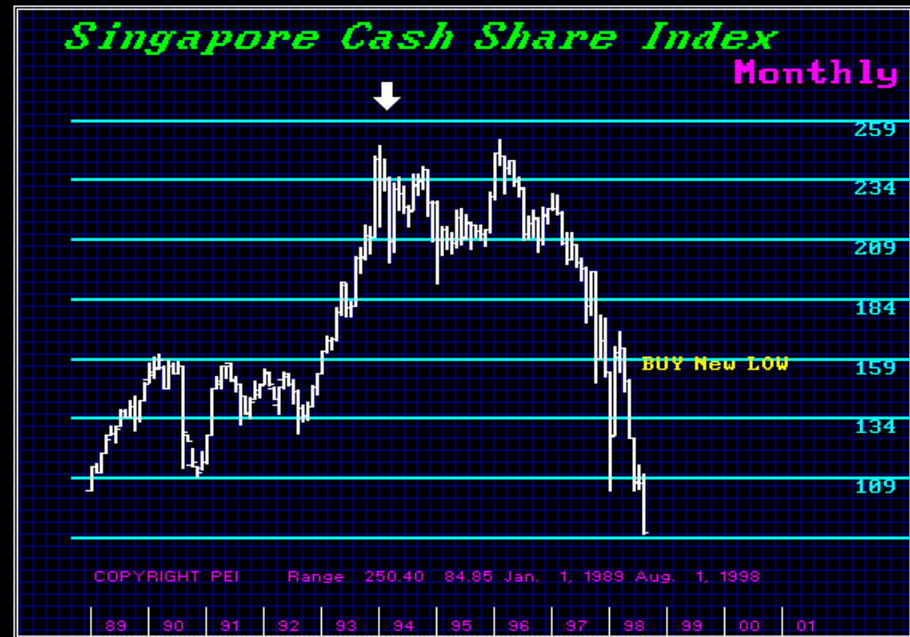


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The lack of understanding that emerged from the Asian Crisis, now threatens to engulf the world economy in a new form of protectionism based upon currency movement. Any attempt to peg currency values on a global basis will lead

to a serious disruption in net capital flows that will only increase volatility by shifting the focus to assets and away from currency. Currency has been a buffer. If capital distrusts fiscal policy, it uses the currency as a hedging medium. If currency trading is restricted, hedging will be reduced and assets will be sold. The G7 cannot stop capital flows. To try, is only a new form of protectionism!







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The Asian Crisis was NOT created by a link to the dollar but by a rush to economic greatness that increased debt risk.

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If Asia had linked its currencies to the yen rather than the dollar - nothing would have changed, because their economies were still moving counter-trend to that of Japan.

The solution does not lie in further attempts to regulate the free markets, but with the understanding that governments must also be competitive to provide a cost efficient environment for capital investment.



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National Pride is the worst all influences that creates confusion for all concerned. Recessions have ALWAYS produced a strong currency while booms produce weak currencies.

War and fiscal breakdowns have ALWAYS destroyed currencies





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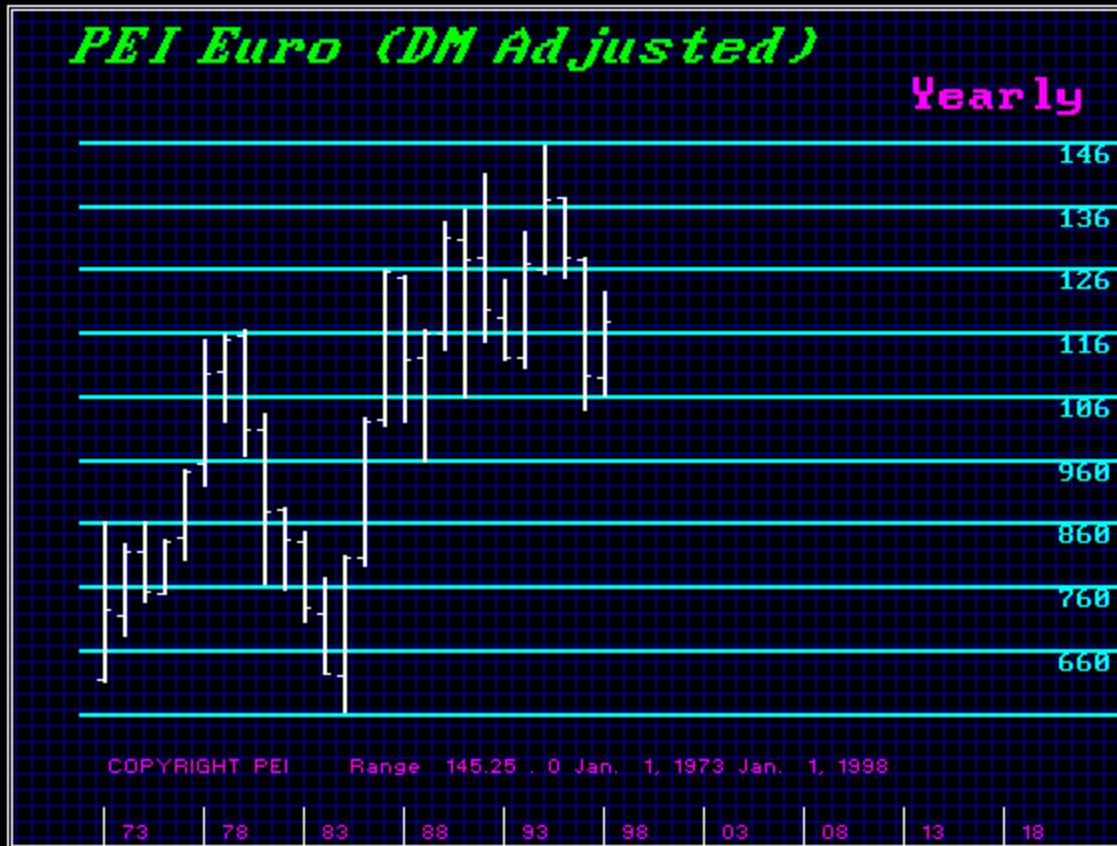
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## The Coming 23 Year Dollar Rally

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The US dollar is in a global bull market on average for 21 to 23 years from 1995 into moving into 2015.75 to 2018.89 but the Euro will bottom 2000, peak 2007 then collapse

The Japanese yen should rally in a gradual trend peaking with the Economic Confidence Model turning point in 2011.45. This should be a new low for the dollar that is marginally beneath the 79 low of 1995. This would place a low in the range of 79 to 75. This should then set the stage for the end of the 23 year Japanese Great Depression 1989.95-2012.95



The Euro began in a bear market and will continue in that trend until 2000/01. The political propaganda attempted to sell the Euro as if it were a new stock.



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## Euro - An Impossible Dream?

Reserve Currencies cannot be created by any government. Historically, reserve currencies have always been determined by the laws of supply and demand, which are also impacted by the desire for security and stability. As a result, the primary reserve currency has always been the default currency of the strongest military power for more than 6000 years. The Euro offers neither economic nor geopolitical stability. It does not even physically exist and thus remains purely electronic. Without a single government, a single currency may prove to be an impossible dream.

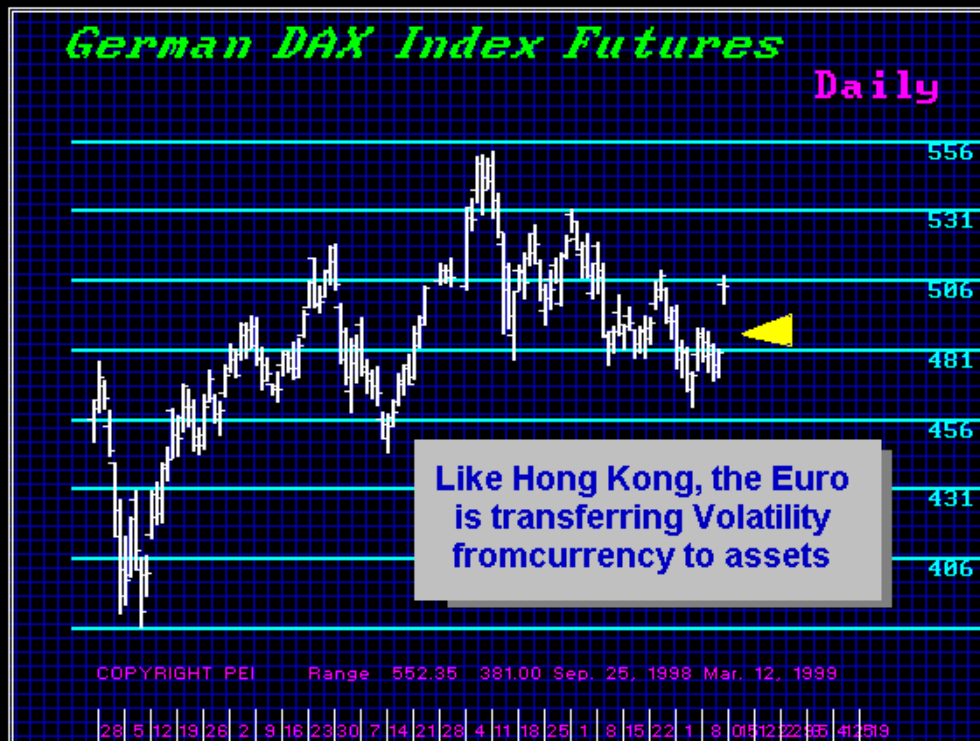
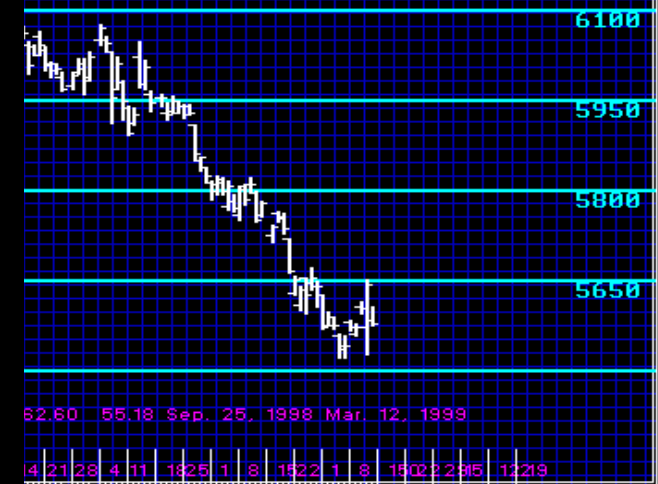
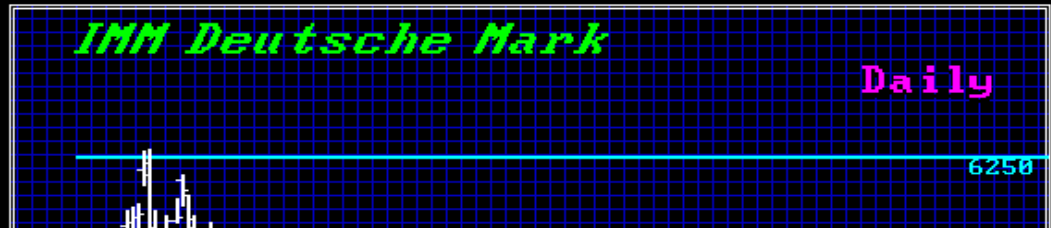
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*World Capital Market Review*

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**Can the Euro  
Join the Reserve Currencies  
of History?**

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## The Lessons of Hong Kong



Will become the next crisis for Europe

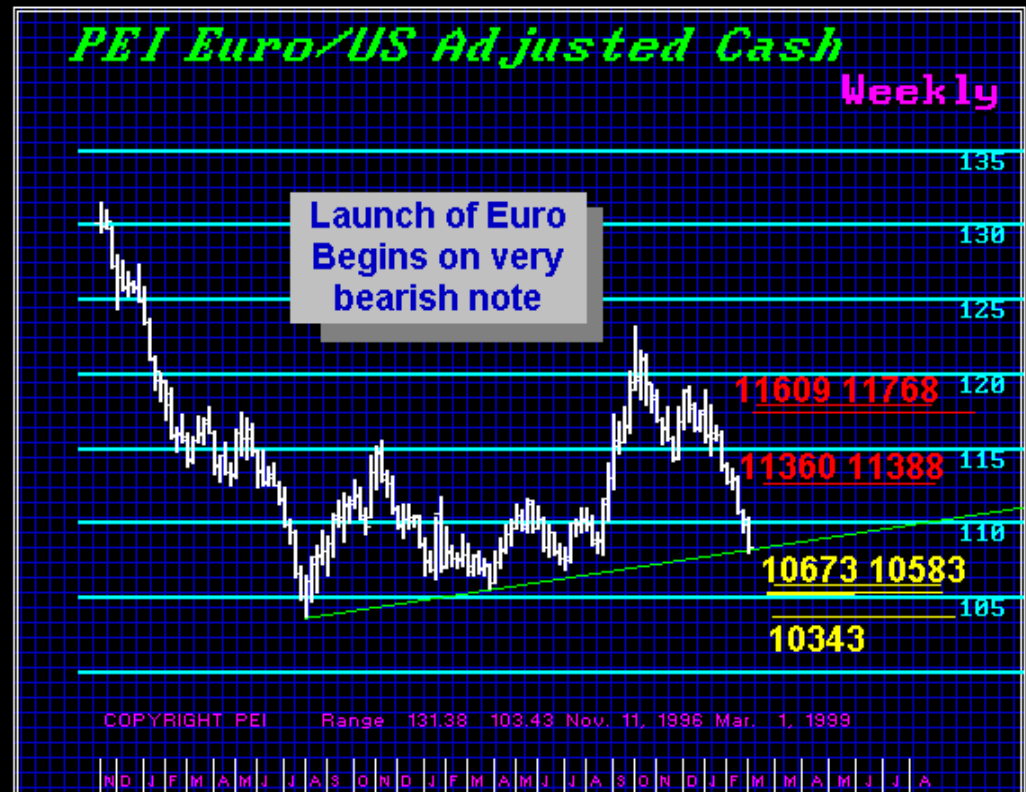


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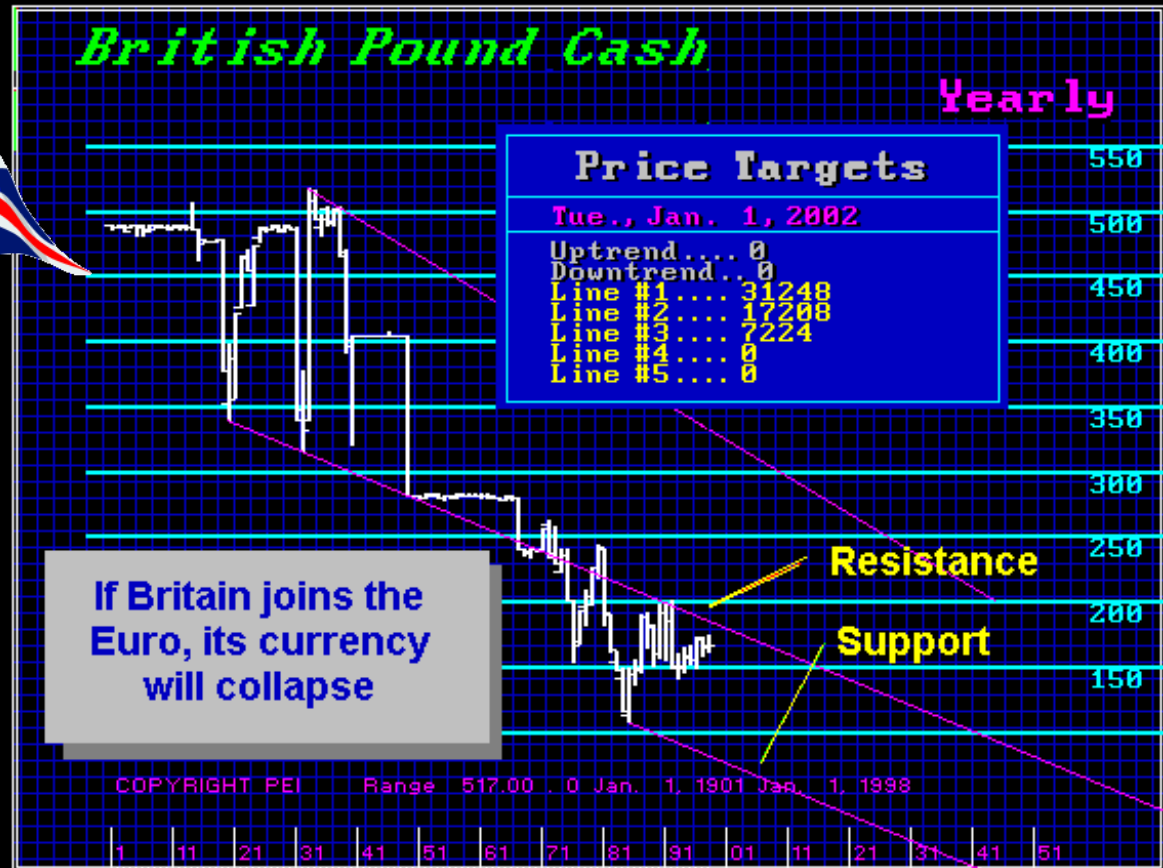
## The New Social Europe begins a new era of Tax Wars

The hopes of major tax, labor and structural reform have faded with the new drive to strengthen socialism. Its effect has been only to send capital fleeing the uncertainty of such left-wing insanity.

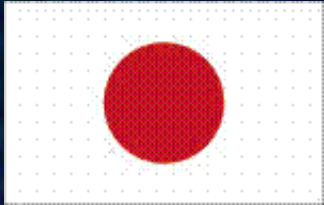




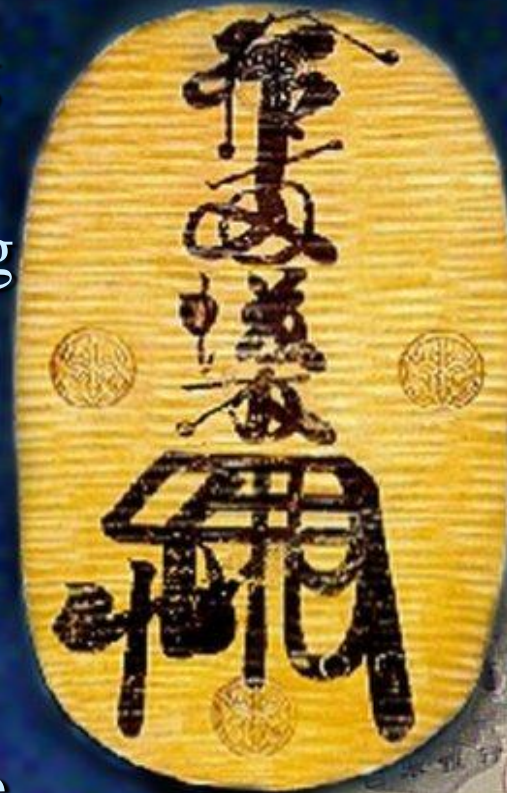
If Britain joins the Euro, it will lose its financial center, and its currency will collapse by as much as 50% by 2002-2003







The Euro is increasing volatility for the Yen. Under the ERM, trading bands prevailed. Now, the Euro has removed 11 currencies forcing more capital to focus on the yen. 1,000 point swings against the dollar will be more common.





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## PEI Spot Japanese Yen Spot Yearly



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1 11 21 31 41 51 61 71 81 91



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## PEI Japanese Yen Cash

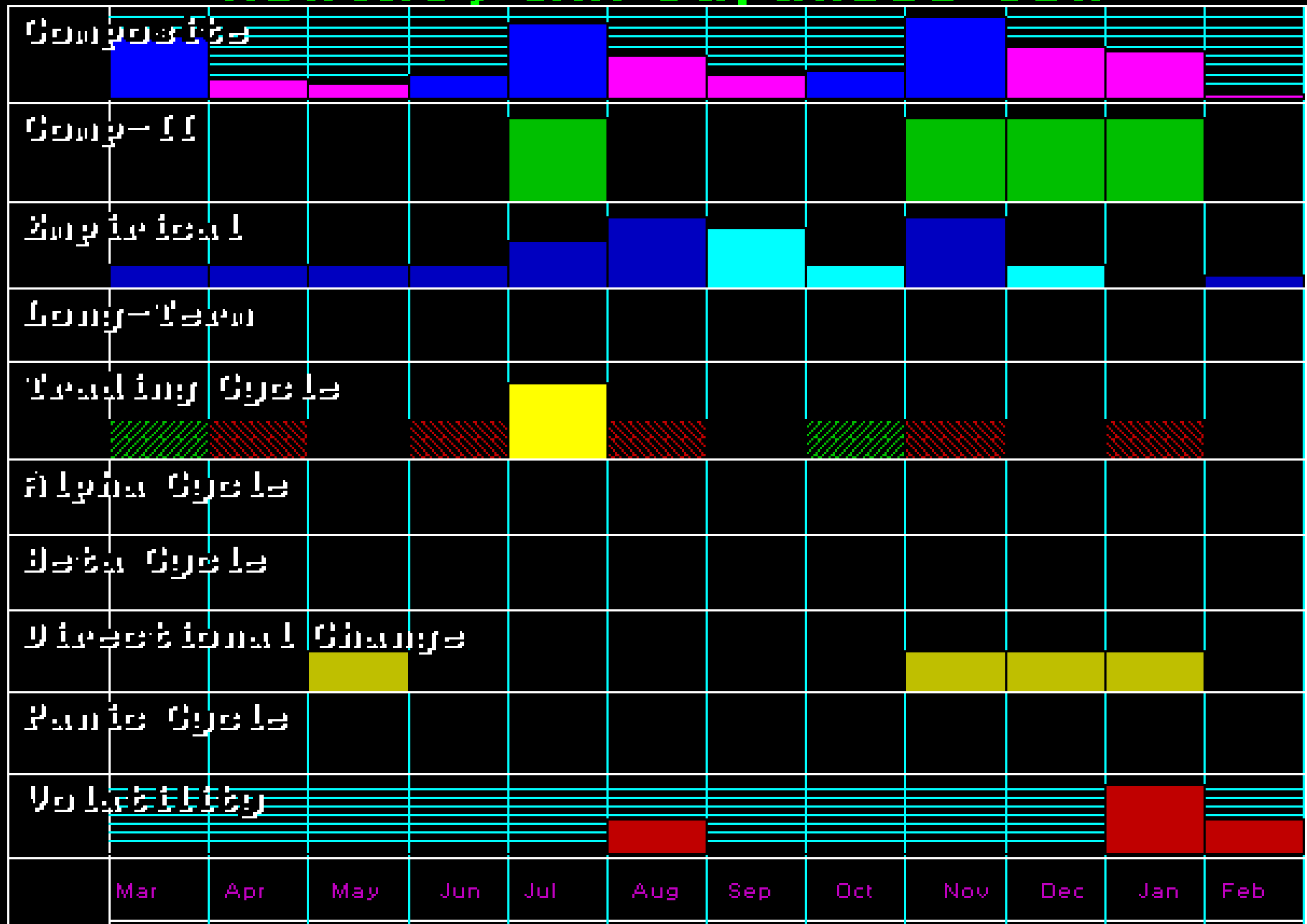
Monthly



COPYRIGHT PEI Range 178.47 . 0 Jan. 1, 1986 Feb. 1, 1999

86 87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04

# Monthly IMM Japanese Yen



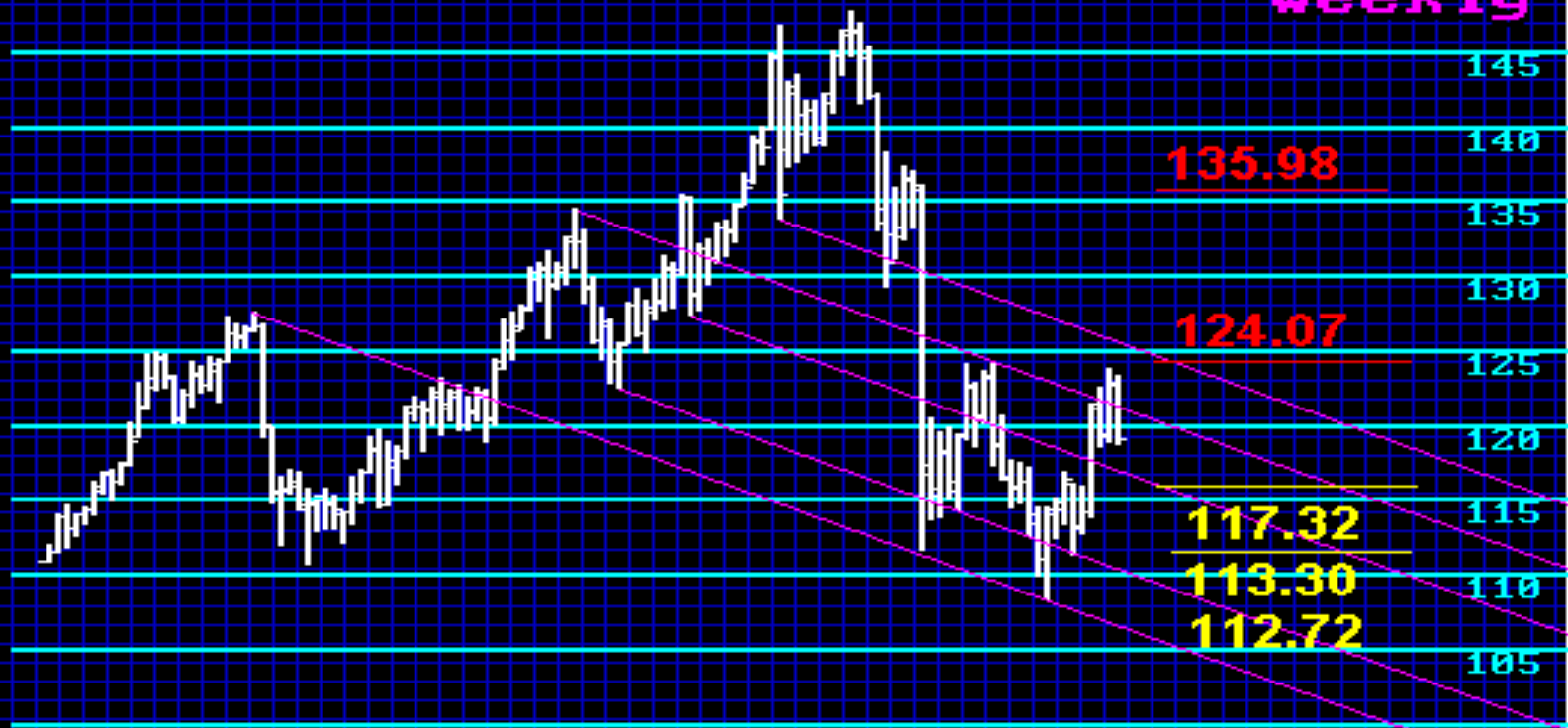


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## PEI Japanese Yen Cash

Weekly



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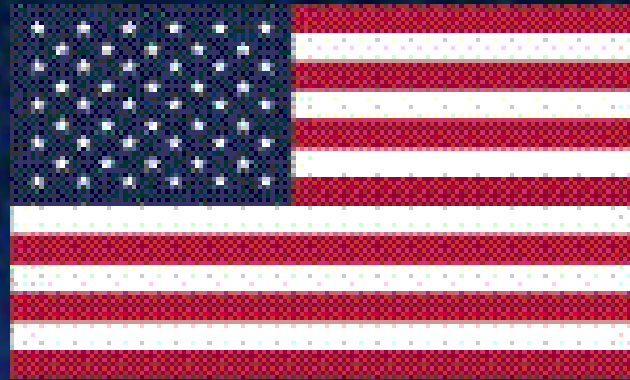




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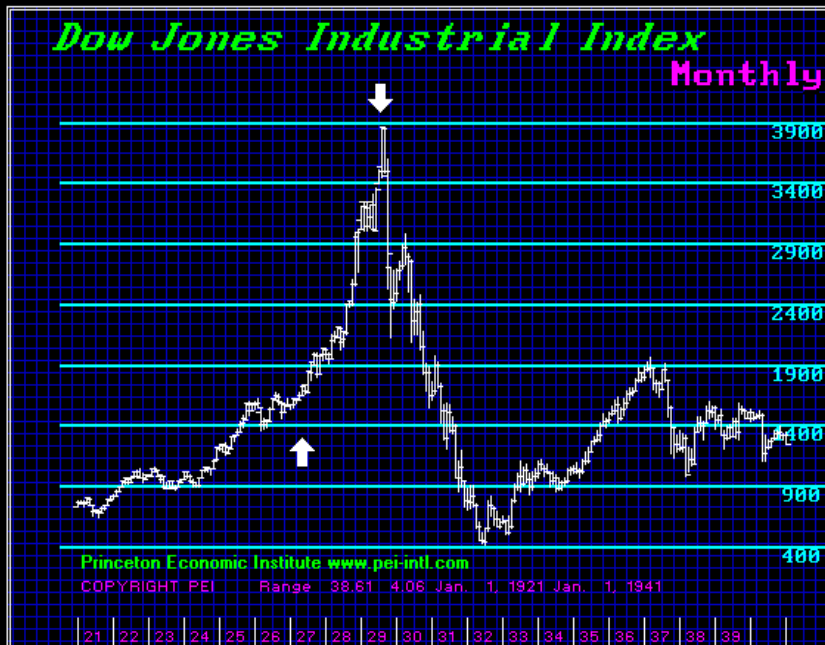
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The Greatest Danger to America, will be a strong dollar



Net Capital Movement will be the key to determining the future

It was the strong dollar that undermined American industry and drove American farmers into bankruptcy.



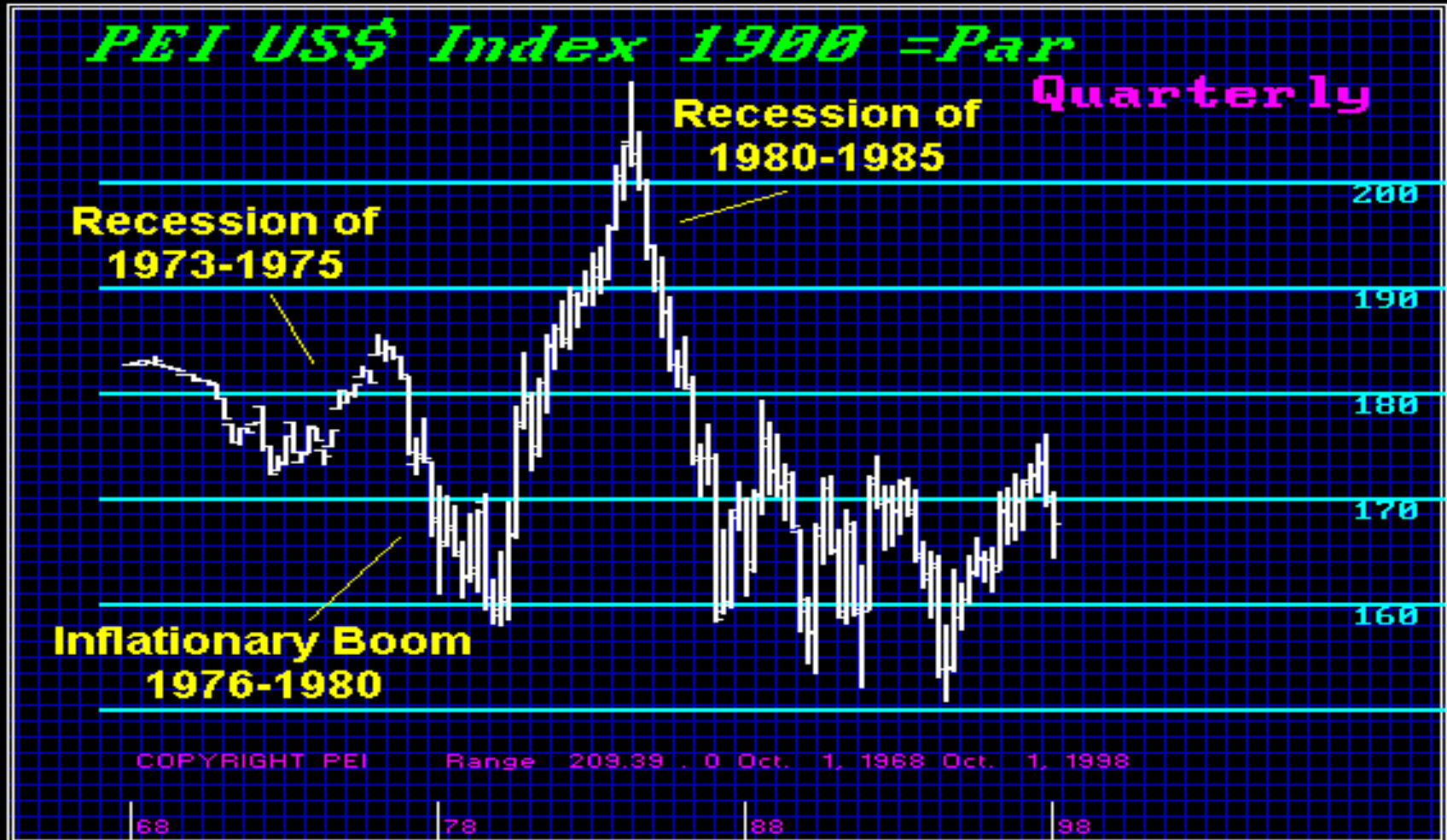
In the end, only a dollar devaluation ended the economic depression





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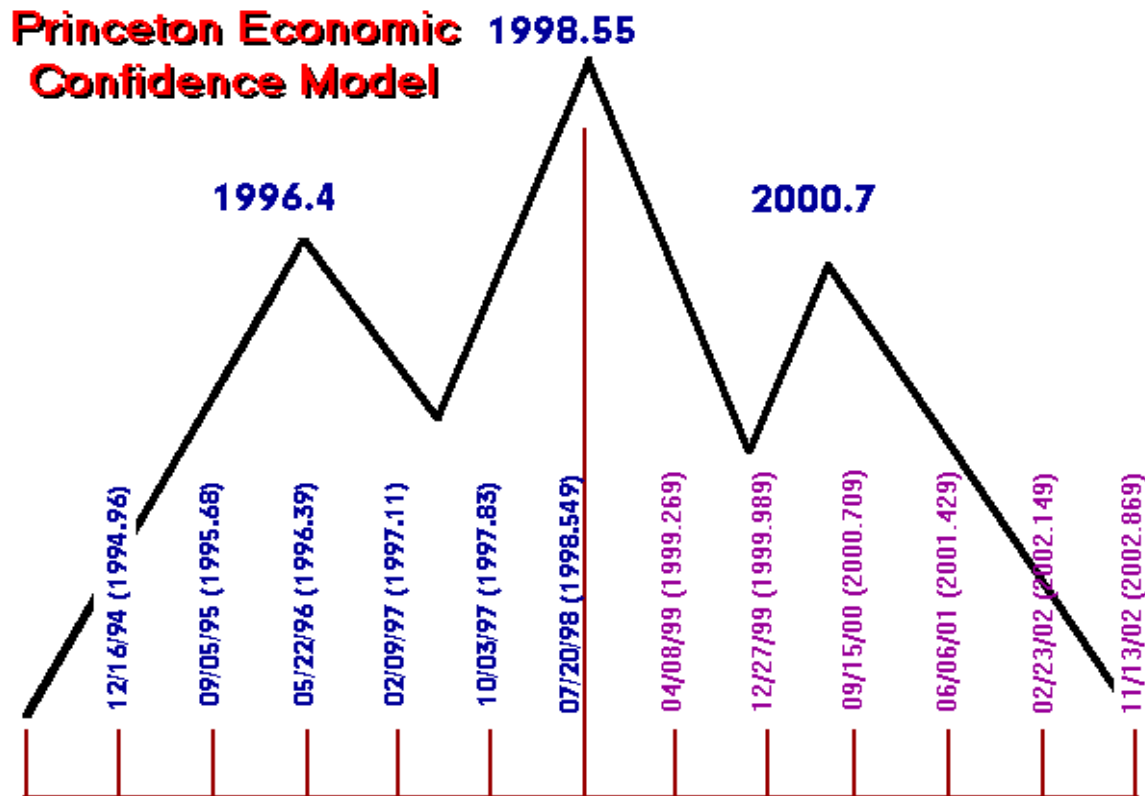
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Recession or Inflation? Boom or Bust?  
Y2K & Nikkei, US Dow, Europe

Outlook  
1999-2002

Directional Changes



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April 8, 1999  
Dec 27, 1999  
Sep 15, 2000  
June 6, 2001  
Feb 23, 2002  
Nov 13, 2002



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## Y2K Starts July 1st - not January 1st, 2000

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- Just in time inventories could result in shortages
- Many nations have June 30th fiscal ends and some begin as early as April 1st.
- Y2K will effect manufacture more than finance
- If the public begins to stock pile supplies, inflation may appear
- Russia and China are not prepared
- US banking system has passed all tests.
- Demand for dollars is leading to a new phase of hoarding



## Beware the Ides (15th) of March

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March is shaping up to be a very critical period in a very dangerous game. All eyes must remain upon the share markets, with particular notice being paid to the US. We have reached our target of 9750-10,000 on the Dow as provided in our 1996 Economic Outlook. The question that we must now face, is will the world take a pause, or will a complete bubble top still lie ahead.

The answer remains hidden in both capital flows and sector investment.



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## Dow Jones Industrials

### Price Targets

Thu., Apr. 1, 1999

Uptrend.... 0  
 Downtrend.. 0  
 Line #1.... 69693  
 Line #2.... 3559  
 Line #3.... 0  
 Line #4.... 0  
 Line #5.... 0

Monthly

9334

8595

7467

7349

6356

5342

823

673

523

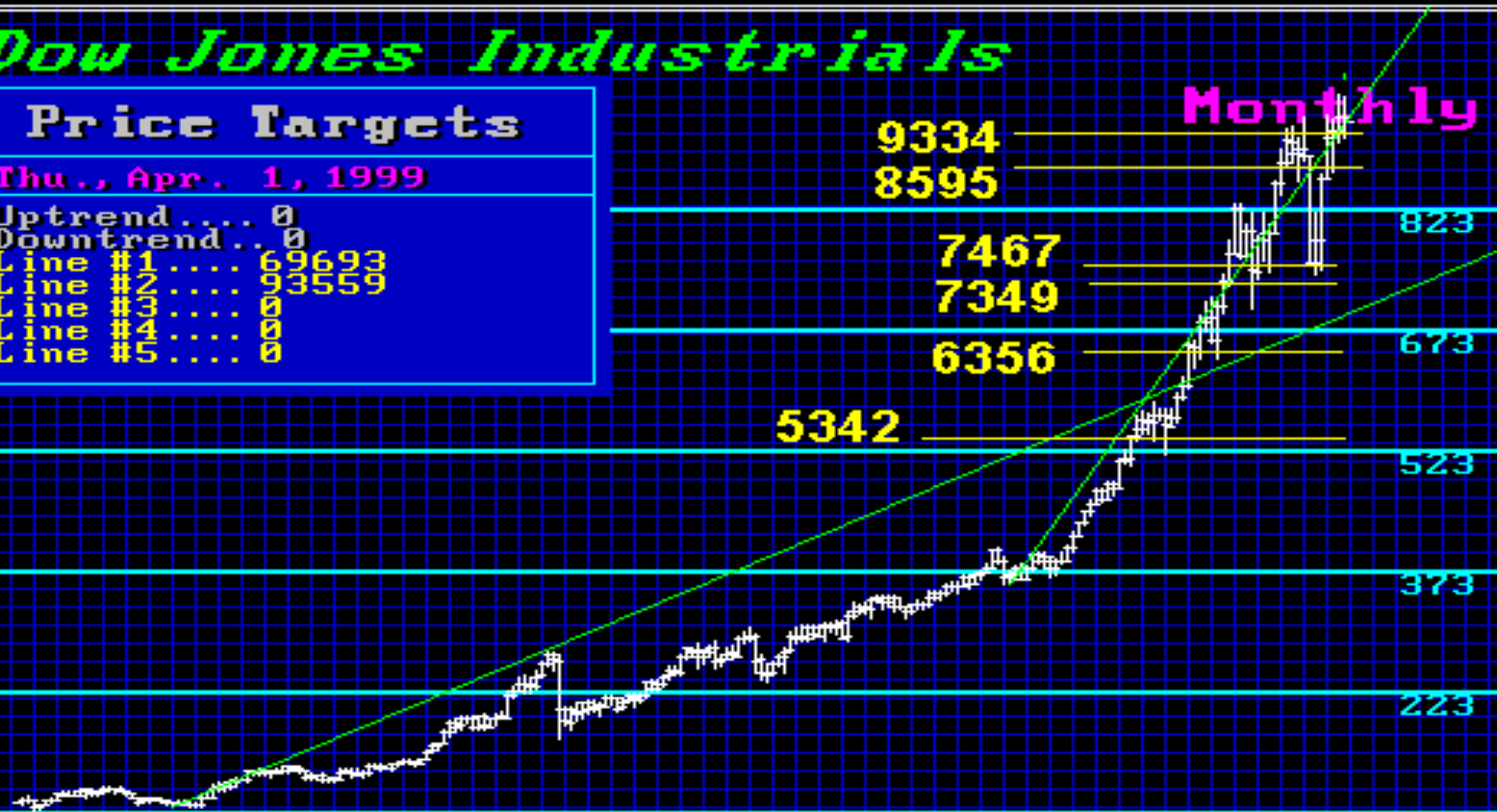
373

223

Thu., Apr. 1, 1999 0 0 0 0

Current Price Range 80475 - 80500 Jan. 1, 1988 Feb. 1, 1989

80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98





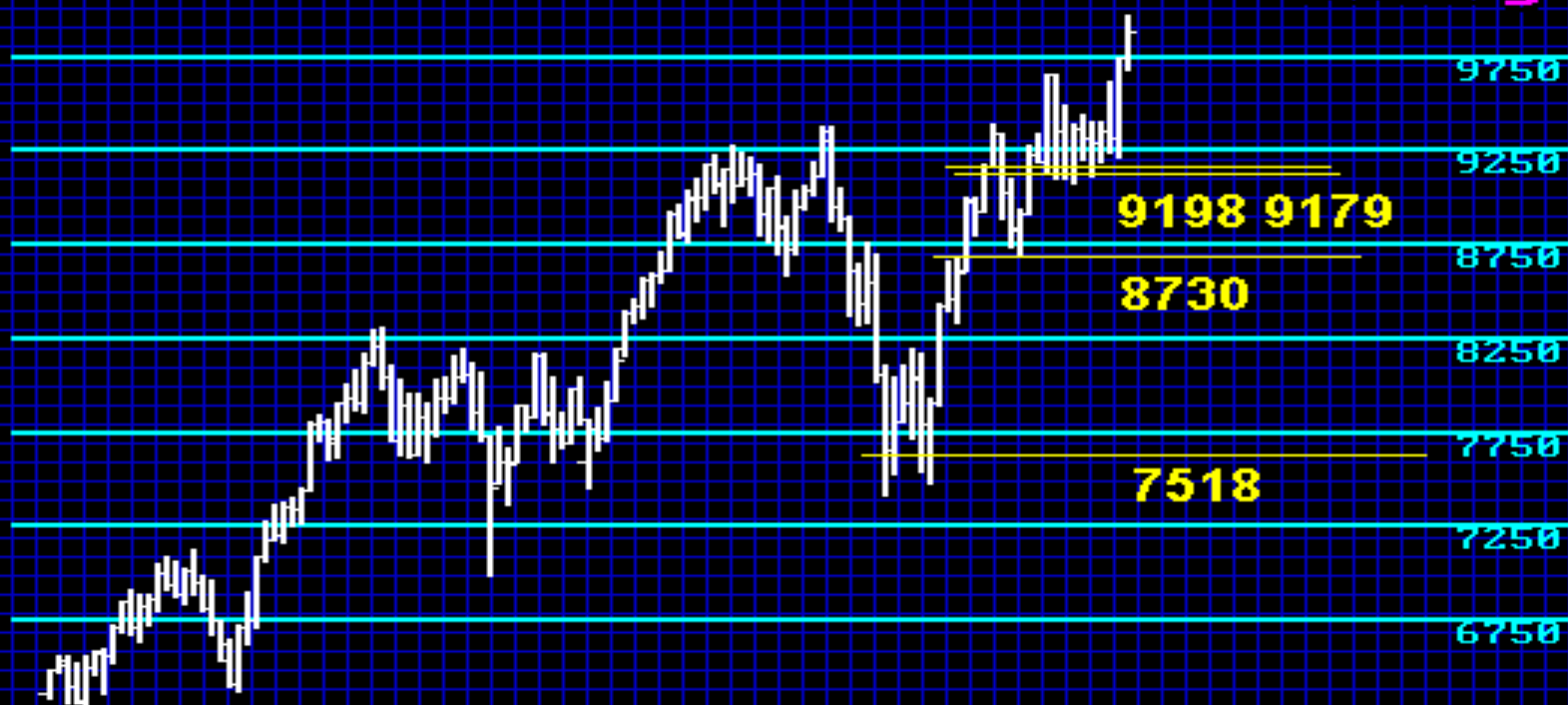


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## Dow Jones Industrials

Weekly



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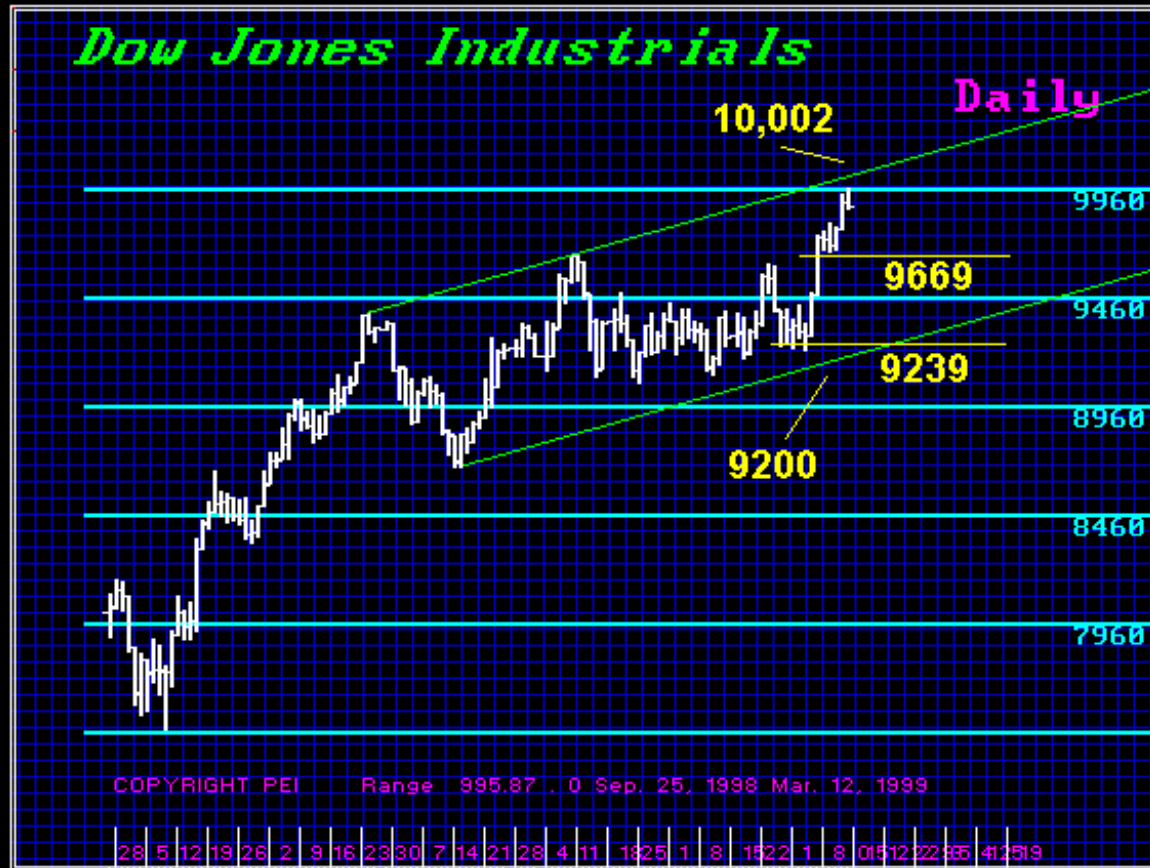






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## Daily Turning Points

- March 15th
- March 19th
- March 25/26





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## Tokyo NIKKEI Cash Stock Index

### Price Targets

Mon., Mar. 1, 1999

Uptrend	0
Downtrend	0
Line #1	20382
Line #2	18526
Line #3	12536
Line #4	0
Line #5	0

hly

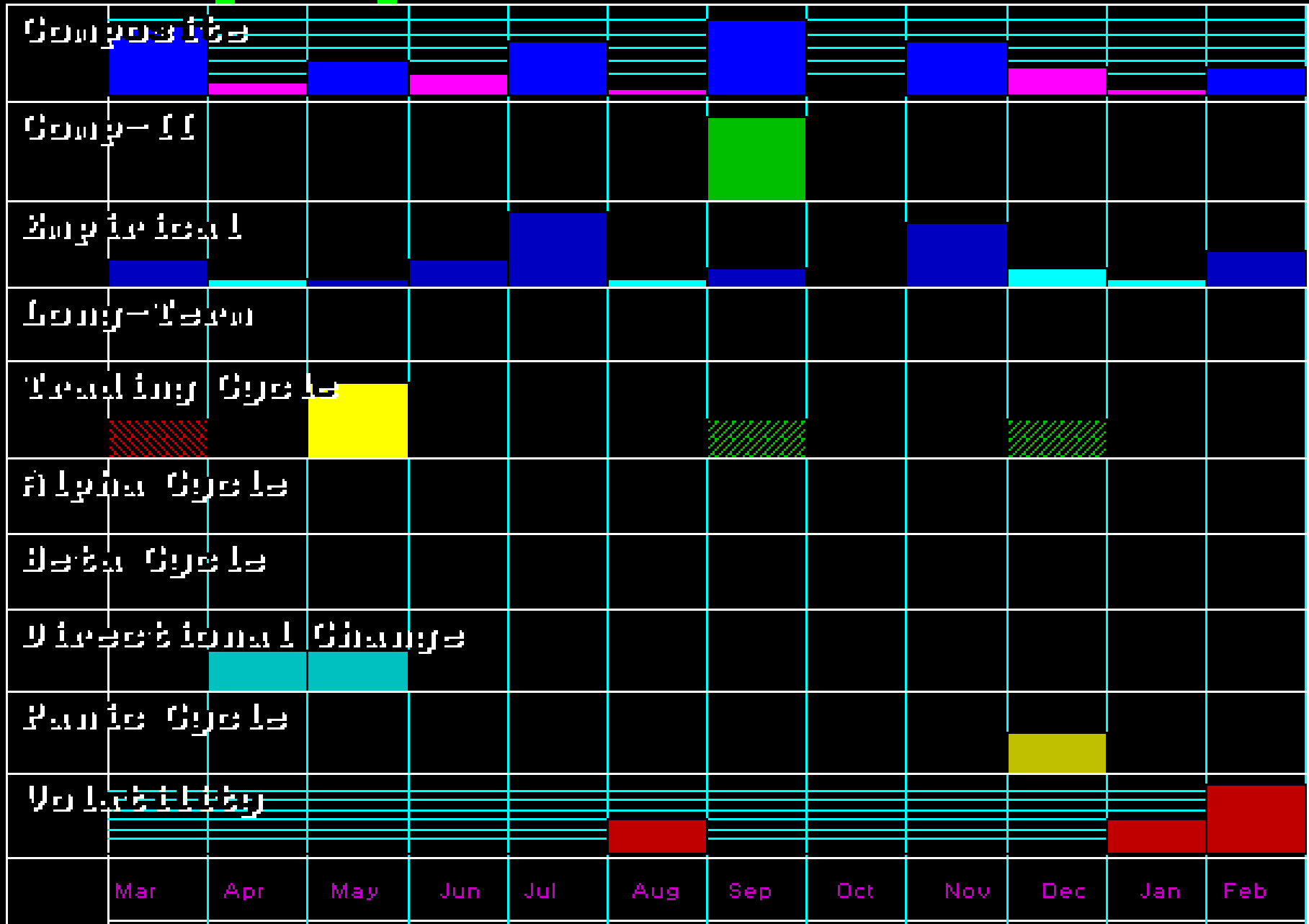


Mon., Mar. 1, 1999 0 0 0 0

Cor. from 1st range 303.01 121.01 Jan. 1, 1987 Feb. 1, 1999

87 88 89 90 91 92 93 94 95 96 97 98 99

# Monthly Tokyo NIKKEI Cash Stock Index



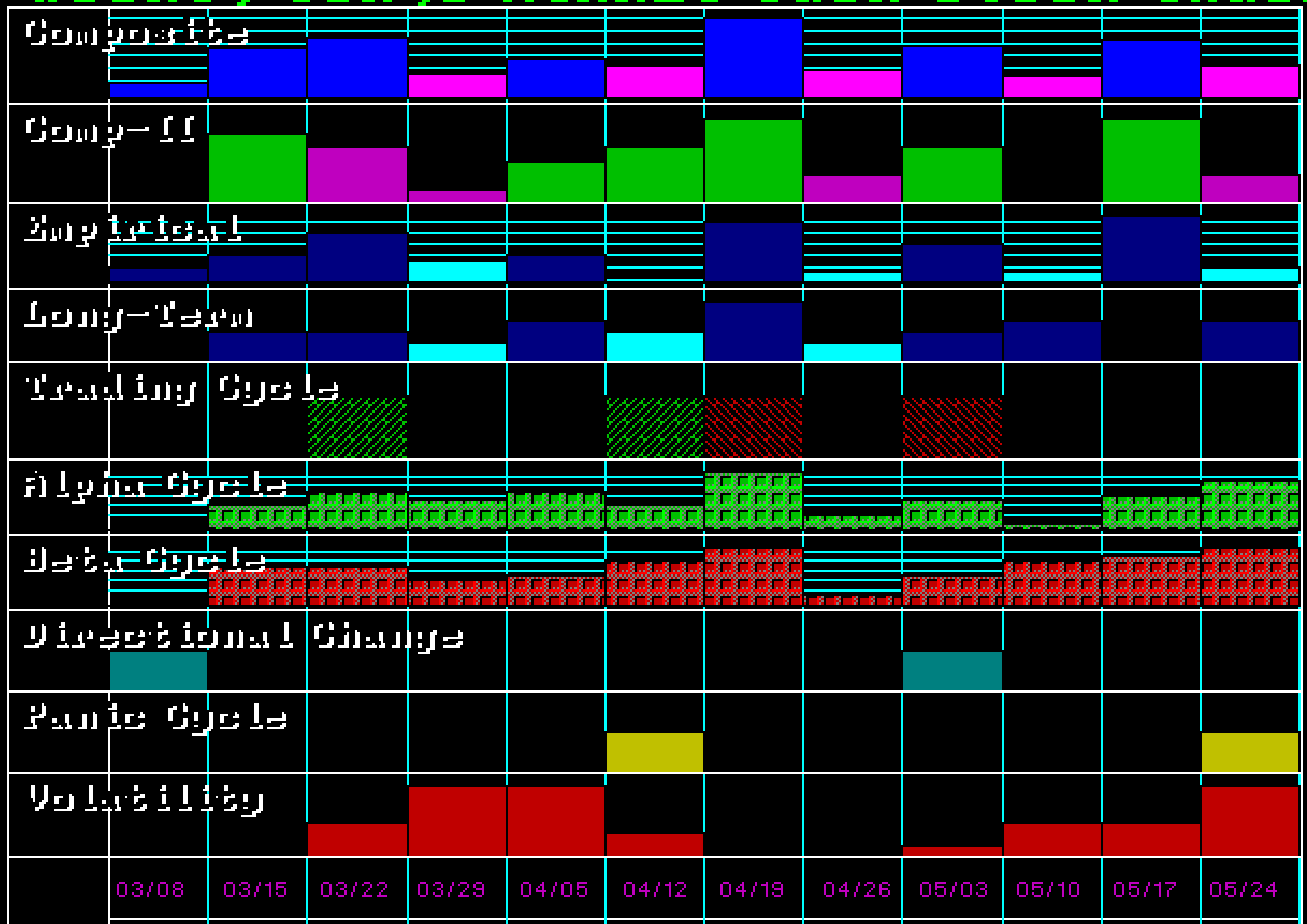
## Tokyo NIKKEI Cash Stock Index Weekly



COPYRIGHT PEI Range 214.60 127.87 Nov. 18, 1996 Mar. 8, 1999

N O J F M A M J J A S O N D J F M A M J J A S O N D J F M M A M J J A

# Weekly Tokyo NIKKEI Cash Stock Index

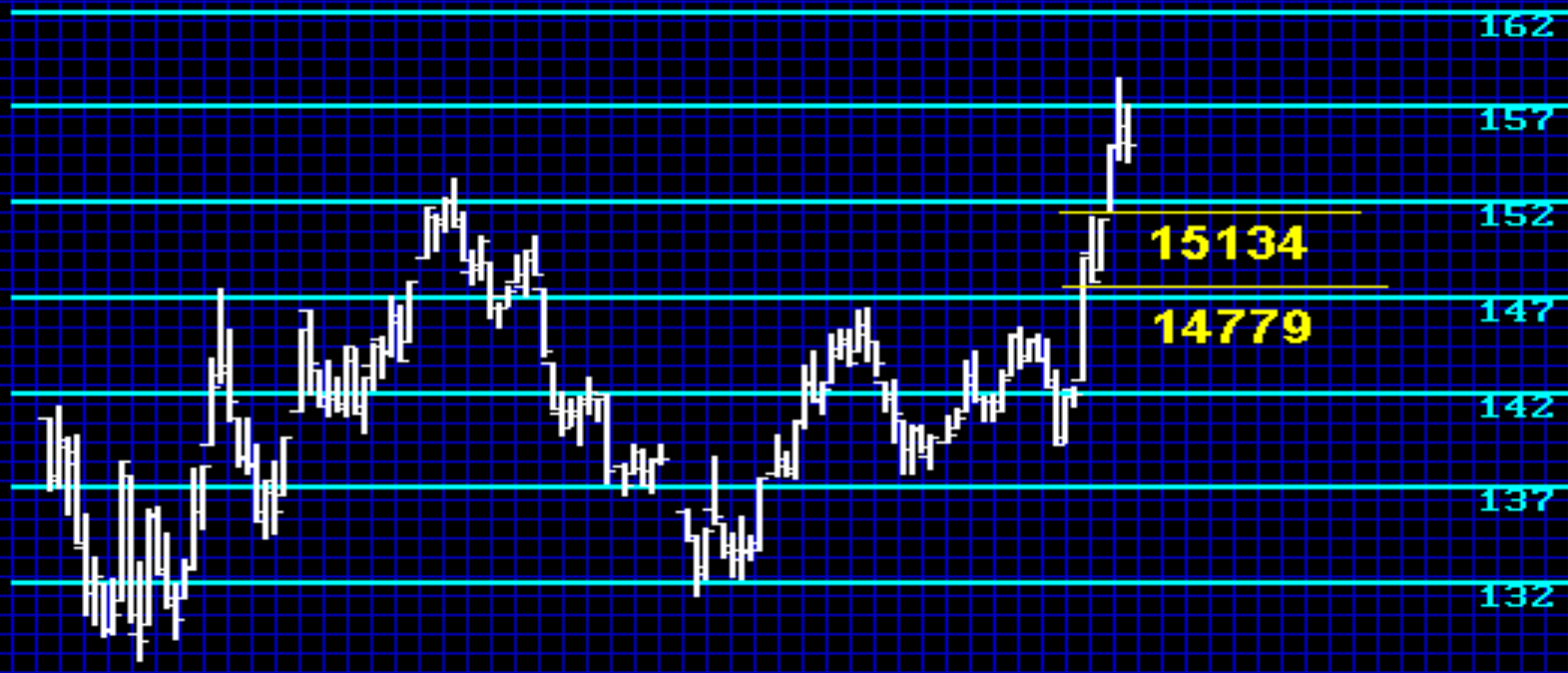




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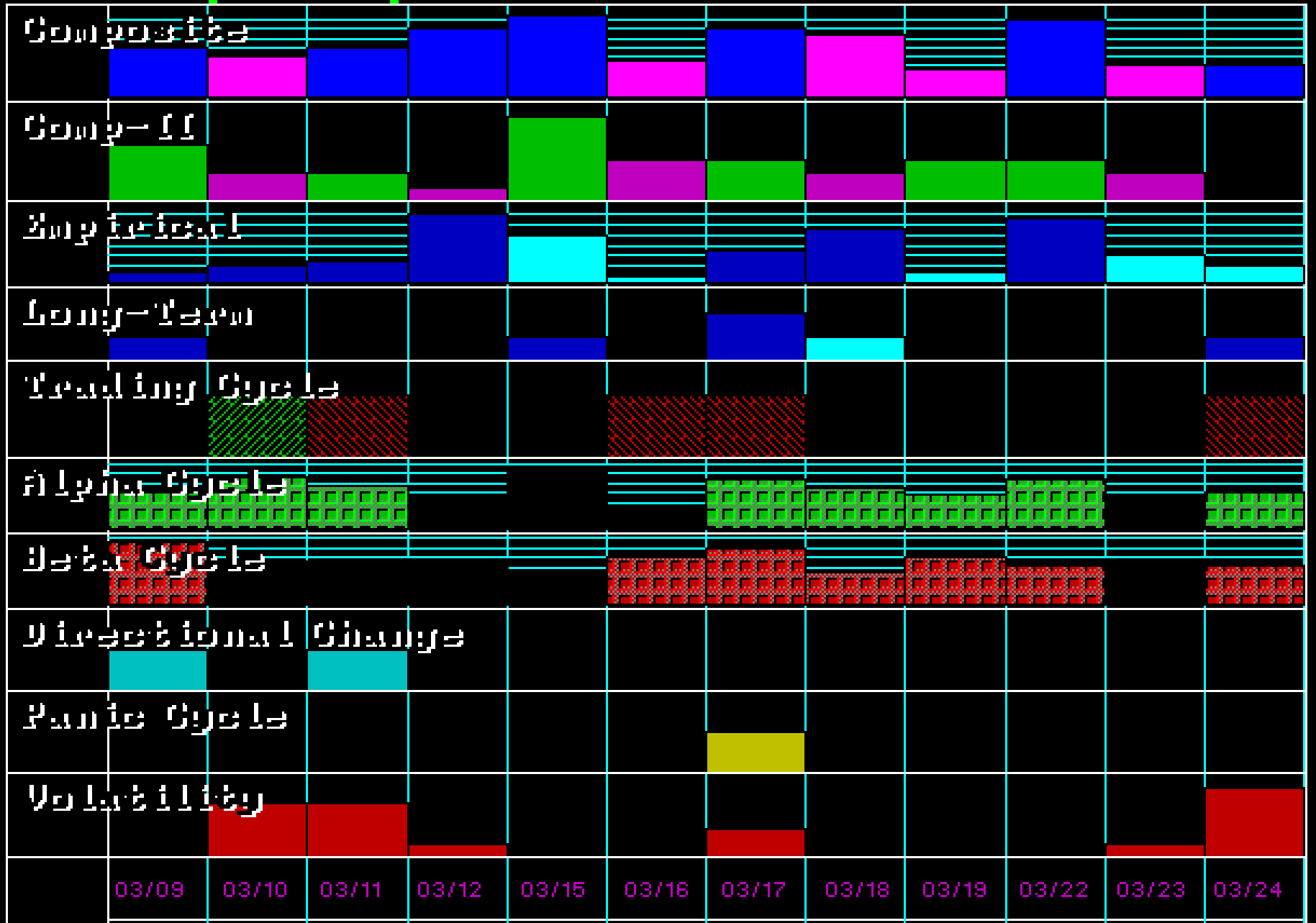
## Tokyo NIKKEI Cash Stock Index Daily



COPYRIGHT PEI Range 158.40 . 0 Sep. 25, 1998 Mar. 12, 1999

28 5 12 19 26 2 9 16 23 30 7 14 21 28 4 11 18 25 1 8 15 22 1 8 0151222335 412519

# Daily Tokyo NIKKEI Cash Stock Index







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## Tokyo 10yr Bond Futures

Monthly

### Price Targets

Mon., Mar. 1, 1999

Uptrend.... 0  
 Downtrend... 0  
 Line #1.... 132282  
 Line #2.... 111077  
 Line #3.... 122094  
 Line #4.... 125300  
 Line #5.... 13479



Mon., Mar. 1, 1999 0 0 0 0

Contract Size: 100,000; Range: 100.00; 0 Jan. 1, 1991 Feb. 1, 1993

91 92 93 94 95 96 97 98 99 00 01 02 03





**Deflation**

**Inflation**