ArmstrongEconomics
researching the past to predict the future

United States – United Kingdom – Germany – Switzerland – Abu Dhabi – Tokyo – Beijing

300 Delaware Ave. Suite 201, Wilmington, DE, US 19801

Now What for 2017

By Martin Armstrong

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United States - Abu Dhabi - London - Beijing

300 Delaware Ave. Suite 210, Wilmington, DE, US 19801

USA (302) - 448 - 8080 - Abu Dhabi +97 124 01 2558

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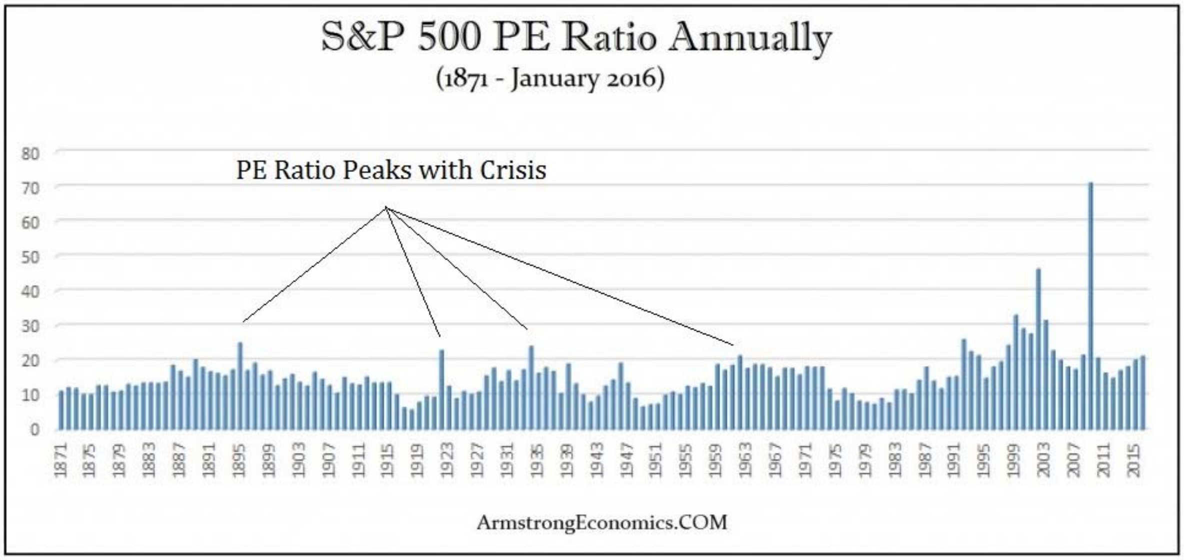
Now What for 2017

By Martin Armstrong

I believe the most amazing aspect of getting this far as we begin 2017 has been the countless forecasts of how the stock market will plunge 70% to 90%, gold will soar to such heights that we will all be paupers without gold, and the dollar will become worthless all because of **Quantitative Easing**. These forecasts have not been confined to just the gold promoters. We have seen Wall Street analysts with a constant bias against the stock market since 2011 perpetually calling every move the final high. Others tout that the driving force behind the stock market is always earnings. Still others tout European stocks will outperform the USA in 2017 because of earnings and growth, which has been colored by the rising dollar they say will lower US earnings compared to Europe.

As they say, timing is everything for even a broken clock is correct for one second twice a day. They have attempted to extrapolate history and overlay it upon current events with absolutely no comprehension whatsoever of how even hyperinflation unfolds or how earnings even play into the market performance. Most of this analysis is centered on select periods of market behavior that are indicative of normal market activity when there is more confidence in government than in the private sector. The whole premises behind earnings negates the very concerns why Trump won or BREXIT unfolded not to forget the votes in Catalonia and Italy. Their data analysis is too short-term to capture what happens when confidence in government is the problem – not corporations.



When we look at the PE Ratio, we can see that the historic high was by no means the peak in the market price. The highs were 1895, 1923, 1936, and 1963 and 2003. These highs were not the peak in prices but followed capital flights. The peak in the PE Ratio historically was 2009 – the bottom of the crisis. This demonstrates that the biggest rallies in share markets are not because of earnings or economic booms, but when you are looking for a place to park money. Hence, analysis that is either bullish or bearish based upon earnings only produces inconsistent signals. If confidence in government is collapsing, as we are witnessing on a political level, then we are more likely to see a rising PE Ratio as more and more capital flees government bonds and even economic growth continues to stagnate.

Overall, the majority of analysts merely share the same rudimentary concepts rooted in Marxism and Keynesian economics that are driving the strategies of the central banks. We have Mario Draghi subscribing to the same theory that if he just keeps buying €80 billion in government bonds or junk corporate bonds every month, sooner or later inflation has to appear. All these prognostications have fallen completely to the ground covered in dust, for the **Quantity of Money** theory is like being only half pregnant. The analysis that has come up with this theory has been seriously lacking in its comprehension and its scope of how the economy functions driven by **CONFIDENCE**. This is also why the central banks are in serious trouble and the European Central Bank (ECB) is actually insolvent by its own standards given it is now the largest holder of government debt of all members of the Eurozone.

Much of this **Quantity of Money** theory behind the idea of inflation has been unbelievable in its lack of actual investigation to prove its validity using one-dimensional concepts. Nevertheless, this is the theory that central banks employ and colleges still teach while politicians and the press believe this remains true without any veracity investigation. **Monetarism** is an economic theory that focuses on the macroeconomic effects of the supply of money and central banking. This was formulated by Milton Friedman, who argued that excessive expansion of the money supply was inherently inflationary, and therefore, governments should focus solely on maintaining price stability. But is this really true? Could this be attributing economic trends solely to the supply of money while ignoring other dynamic factors that are essential to the entire system?

Sir Thomas Gresham (1518–1579) worked in Amsterdam and witnessed the impact of Henry VIII (1509–1547) debasing the coinage of England three times dropping from 92.5% silver, 50%, and then to 33%. He later advised Elizabeth I (1558–1603) and this is when he established what has become known as Gresham's Law – debased (bad) money drives the older (good) money out of circulation. Captured within this saying is something seriously overlooked. People assumed that debasing the currency leads to instant inflation. However, Gresham is saying debased money drives out the older high quality silver coinage from circulation. Within that statement lies the interesting reality of **DEFLATION**. How can debasing the currency create deflation? Because the older currency is hoarded and thus the velocity of the money supply declines. This then feeds back and causes the government to debase the currency even more desperately trying to make ends meet.

We must come to face this overlooked factor that debasing the money caused actually the opposite impact as people hoarded the older money thus shrinking the money supply. Velocity is measured by dividing the GDP by the supply of money to determine how many times the money changes hands. As people hoard money, the velocity declines with recessions and depressions. Therefore, we must review how we are attributing everything to just the **Quantity of Money** theory as if this is all we need to predict the future and manage the economy. Hence, central banks have desperately tried to increase the

Sir Thomas Gresham (1518-1579)

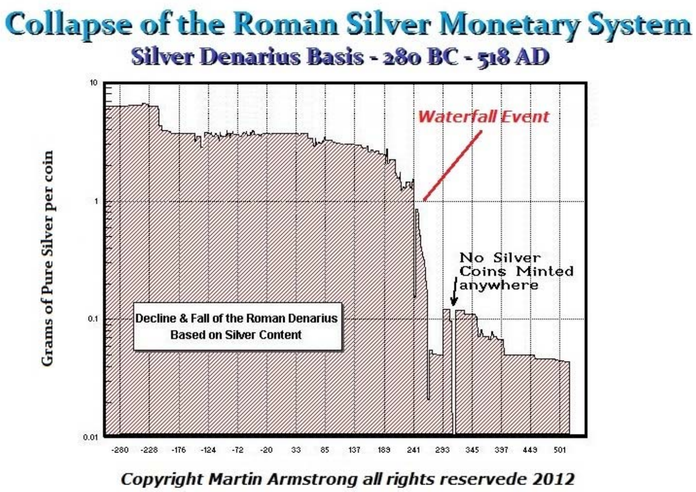

British Hoard Discovered 2007
Containing 52,000 Roman Coins

money supply and lower interest rates to even negative rates to punish savers. That has only resulted in withdrawing more cash from banks expanding hoarding thereby collapsing the velocity of money. This is why governments are looking at eliminating physical money to (1) prevent hoarding of money, and (2) increase their ability to tax whatever you have saved.

So, we must look at this basic theory of increasing the quantity of money through **Quantitative Easing** as inflationary when in fact it has failed to produce inflation. As far too often, theories are constructed with a very simple one-dimensional relationship that does not hold up in markets like the silver/gold ratio. If there are no constants even between two variables such as gold and silver maintaining an unchanging ratio, then it is only logical that inflation is also not a direct 100% correlation to simply the quantity of money.

The discovery of ancient coin hoards clearly demonstrate that the hoarding of money was not exclusively related to the new debased (bad) money driving the old (good) money out of circulation. The existence of hoards from the 3rd century AD illustrates that when confidence collapsed in the Roman Empire following the capture of the Emperor Valerian I (253–260AD) by the Persian king Shapur I (240/42 – 270/72).

It was the capture of the emperor that shook the confidence among the Roman people and emboldened the barbarians of the north to invade. People began to hoard and the velocity of money collapsed. This resulted in Valerian I's son, Gallienus (253–268AD), to sharply debase the currency to try to cover the expenses of the government. We can see that the silver content of the Roman antoninianus (double denarius) collapsed to virtually zero in just 8 years.



It was the 3rd century when Christian persecutions were the most aggressive. The ill-fortune of Rome was seen that their gods would not listen to them because they were rejected by the Christians. This was the reasoning behind the persecution. Today, the economy turns down and they will blame the rich. Society must always blame some minority. The Christians argued that the Romans were praying to false gods. Strangely enough, the greater the persecutions, the more people began to listen believing they were willing to die for something that must be real.

3rd Century AD Hoard Roman Coins

Therefore, the element that lies at the core of everything is **CONFIDENCE**. Once Valerian was captured, the Romans lost confidence and began hoarding money for the future – a rainy day so to speak. The hoards included debased coins so this was not simply a Gresham event of hoarding the older coinage with greater fineness and spending the debased. This was hoarding even debased coinage. This illustrates the fact that **CONFIDENCE** collapsed in everything right down to banks and government. There were 13 Emperors from 260AD to 270AD with Aurelian (270–275AD) building the wall around Rome, for the barbarians had breached the frontiers.

Aurelian (270-275AD) Constructed Defensive Walls Around Rome

The Gresham's "Law" is not so much a true law. Yes, debased money will drive out the good money as in the 1960s with the switch from silver coins to copper–nickel in 1965. However, the **CONFIDENCE** remained intact within government and therefore Gresham's "Law" worked as defined. However, when the **CONFIDENCE** collapses in everything from banks to government, then we get a completely different result as we can see from the hoard evidence from the 3rd century AD in the Roman Empire.

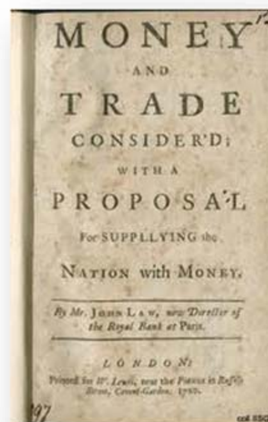
We must understand that **CONFIDENCE** is the deciding factor in so many ways. How many times have we heard even when the earnings of a company rise, the share price falls and the talking heads then say it wasn't good enough or meet expectations? What are they actually saying? People expected more and were disappointed even though it was still bullish for the share price. In other words, ***expectations*** are moving the share price and not the absolute earnings. So, if people expect too much and are disappointed, they will go against the news anyhow based upon **CONFIDENCE**. When the trend is bearish, good news will not help reverse the trend. It is a combination of factors – never just one.

The **Quantity of Money** and **Monetarism** suffer from a simplistic one–dimensional investigation that ignores the human element essential to everything – **CONFIDENCE**. If we turn to the theory of **Supply v Demand** and go back to who really came up with this theory, we stumble upon something very interesting. Once again, we must step back to Amsterdam, the same place that Gresham came up with his Law by observing how markets traded.

John Law (1671 –1729)

The theory of **Supply and Demand** was first the observation of the notorious financier John Law (1671–1729), who was claimed to be a murderer because dueling was illegal which caused him to flee England and went to Amsterdam. There he also observed how markets were trading and reduced his observations to books others plagiarized.

Upon his return to Scotland, John Law wrote his best–known work entitled: ***Money and Trade Considered**, **with a Proposal for Supplying the Nation with Money*** (First Edition 1705, Second edition 1720). John Law was a man with experience in trading on the Amsterdam exchange, which led him to his observations. In Chapter I, he begins:



> *"How Goods are valued. Of Barter, of silver; Its Value as a Mettal, its Qualities fitting it for Money, and the Additional Value it received from being us'd as Money.*
>
> *Goods have a Value from the Uses they are apply'd to; And their Value is Greater or Lesser, not so much from their more or less valuable, or necessary Uses: As from the greater or lesser Quantity of them in proportion to the Demand for them. Example. Water is of great use, yet of little Value; Because the Quantity of Water is much greater than the Demand for it. Diamonds are of little use, yet of great Value, because the Demand for Diamonds is much greater, than the Quantity of them.*
>
> *Goods of the same kind differ in Value, from any difference in their Quality. (Ex.) One Horse is better than another Horse. Barley of one Country is better than Barley of another Country.*

Goods change their Value, from any Change in their quantity, or in the Demand for them. (Ex.) If Oats be in greater Quantity than last year, and the Demand the same, or lesser, Oats will be less valuable.

Mr. Lock sayes, The Value of Goods is according to their Quantity in Proportion to their Vent. The Vent of Goods cannot be greater than the Quantity, but the Demand may be greater: (Ex.) If the Quantity of Wine brought from France be a 100 Tunn, and the Demand be for 500 Tunn, the Demand is greater than the Vent; and the 100 Tunn will sell at a higher Price, than if the Demand were only equal to the Vent. So the Prices of Goods are not according to the Quantity in Proportion to the Vent, but in Proportion to the Demand."

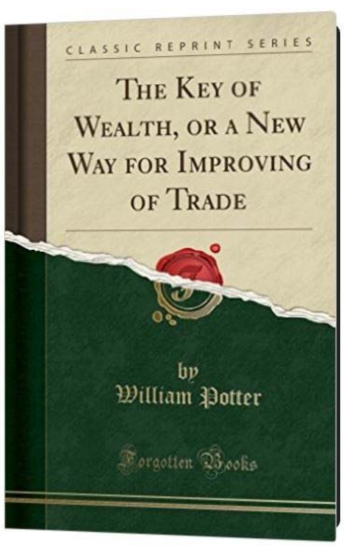
John Law's writings influenced many, although they would never admit it. He was clearly the **FIRST** to use the term **DEMAND** and he was certainly the **FIRST** to join it with the word **SUPPLY**, for only a trader could have seen this connection in price movements of anything. John Law used these two terms to establish the first theory of price movement.

Dutch Wisselbank founded in 1609

Law's views held that money creation would stimulate the economy and that paper money is preferable to metallic, which was proven to be correct by the Wisselbank in Amsterdam. The downside of gold and silver circulating as coinage involved counterfeits or clipping the coins thereby reducing their weight. Those who argue for a gold standard do not quite understand their full history. From ancient times, there were foreign exchange dealers and each and every coin had to be inspected. Here is one of the very first coins of Lydia from the 6th century BC displaying nine banker marks thereby confirming that the coin is valid.

That meant each and every transaction required the tedious burden of verifying its authenticity and that it was not clipped. The reason paper money became preferred was that once deposited your coins no longer needed to be authenticated. A transaction became less onerous.

John Law was there at the beginning and observed how the Wisselbank functioned, which then became the model for the Bank of England established in 1694. Once banks took deposits, it then became much easier to pay for a transaction by writing a check or paying in banknotes.



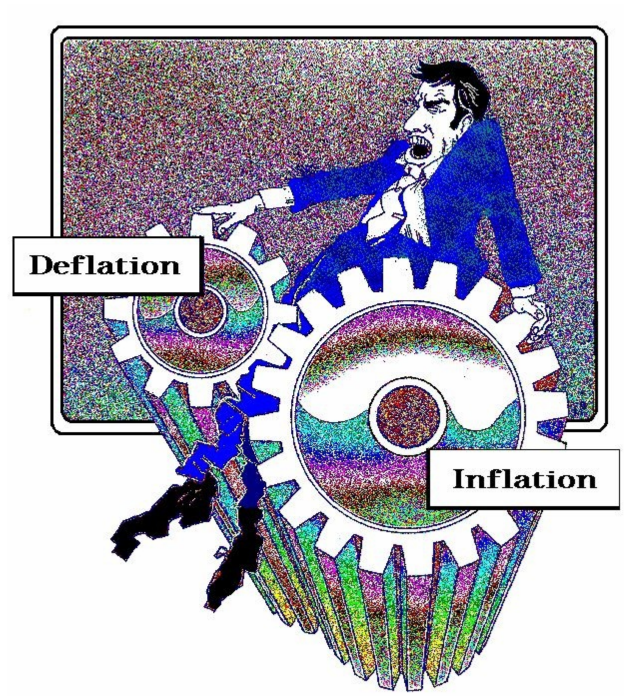
When metal was weighed prior to coins, each and every transaction became tedious. That led to the idea of first standardizing the weights during the 7th century BC. It was during the 6th century BC that the king (government) began stamping the seal of the king (lion head) to verify its authenticity.

There were also the Massachusetts land bank schemes of 1714 and 1740 where land was used for the backing of notes. This idea owed its inspiration to an early project published in London in the year 1684. Yet, the origin of the land bank idea predates Massachusetts and can be traced to an unknown William Potter of London who published a paper in 1650 entitled ***"A Key of Wealth, or a New Way for Improving of Trade",*** which was a proposal that influenced John Law and Richard Cantillon (1680–1734). A copy of Potter's book was brought to Massachusetts and prompted an early colonial experiment in 1681.

Richard Cantillon (1680-1734)

The very same year 1650, Potter also published in quarto form ***"The Tradesman's Jewell"***. The latter actually includes the former. Potter sought to demonstrate how trade could be stimulated and wealth increased by means of paper money. Therefore, paper money was the ***"Tradesman's Jewell"***.

These two publications were followed by a proposition submitted to the Council of Trade for the creation of wealth. The basis of his idea called for the increase of the circulating medium of exchange (money) would increase trade without increasing prices (id/Key to Wealth p15). Potter argued that the exchange of personal credits that were well established and freely accepted, would thereby increase trade. He wrote: ***"If you can furnish credits which will circulate, you have a good circulating medium."*** We must keep in mind that this was written in 1650 and thus precedes the Bank of England, which was set up in 1694.



The paradox of deflation vs inflation was starting to emerge. The entire foundation was observing that a shortage of money creates deflation in the same manner as hoarding. Inflation would at first glance appear to increase with the availability of money, but only if people spent it and not hoard.

Potter argued that to ensure the circulation of these credits would be that several tradesmen should cause a number of bills to be printed, the face value of which would be verified, and then they should lend them to each other demanding the same security as if they were money itself. Borrowers would then stand behind secured to the company and agree to transactions half in these bills and half in goods in trade and that these bills would be redeemed for money upon demand. **The bills should be redeemed every six months**. That would defeat hoarding.

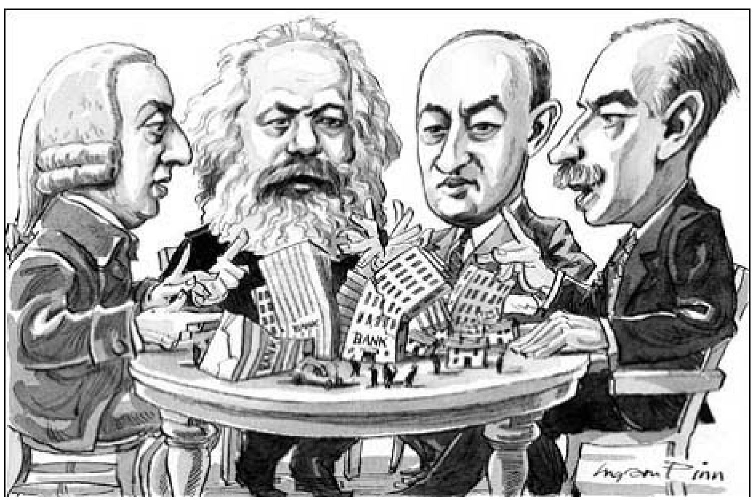
Potter recognized that money was not restricted to anything in particular for the essence of barter was at the base of everything and that money was only an agreed upon medium of exchange between two objects. What Potter was really proposing was not to create paper money from nothing, but to monetize the essence of barter. In this way, he saw land as inherently an object of value. If bills were issued to monetize land, yes, he would increase the supply of money, but dig deeper. He was really trying to increase the velocity of money. The mercantilists saw the wealth of a nation was its gold and silver. If that was wealth, then it did little for the economy because before banks, coins were just hoarded so the velocity of money was extremely low. Someone would become a millionaire, but they would hoard their money and not lend it out. Potter was looking to actually increase the velocity of money and that was his key to wealth and this regard of fine–tuning what he was saying we arrive at the correct understanding of what he proposed before Cantillon and John Law.

John Law built upon Potter's idea and submitted a banking plan to the Scottish Parliament, but they rejected it. John Law had previously written the ***Essay on a Land Bank*** in 1704 (not published until 1994) constructed on Potter's idea. Because of his so–called murder and the **Mississippi Bubble** collapse, Law has been written off as just nobody, a criminal at best and Potter was also denied recognition. Potter does not even have a page in Wikipedia.

Nonetheless, John Law still made the fatal mistake of Milton Friedman (1912–2006) and others such as John Maynard Keynes (1883–1946). He assumed that the ***"demand"*** of the people could be manipulated and controlled. Both Law and Friedman saw the tool being the supply of money whereas Keynes saw that interest rates and taxes should be the tool to manipulate demand. Within this theory of manipulating demand, also lies the anti–Trust Act targeting monopolies that control supply. Supply–side economics is a macroeconomic theory that argues economic growth can be most effectively created by investing in capital and by lowering barriers on the production of goods and services. Allow the free markets to influence demand rather than government trying to manipulate the demand of the people.

This simple flaw of one–dimensional reasoning no doubt would lead Karl Marx (1818–1883) in the same direction of assuming we can manipulate society to achieve the perfect outcome – economic utopia or communism/socialism. The failure of Marxist theory was the blunt fact that government is infested with humans who in turn will still act only in their self–interest no different from the CEO of a monopoly, which is really government.

While supply can be controlled and identified in most cases, ***demand*** is purely a human emotional aspect. Even the theory of monopolies fail for you can extract a price that may be unjust only up to a point. Besides the fact that alternatives will always emerge, no corporation can maintain a monopoly indefinitely any more than a government (which is a monopoly by taxation) can maintain power indefinitely. All governments expand in their demand and ultimately spark revolution when their demands become too excessive – i.e. what people are calling the Trump Revolution.



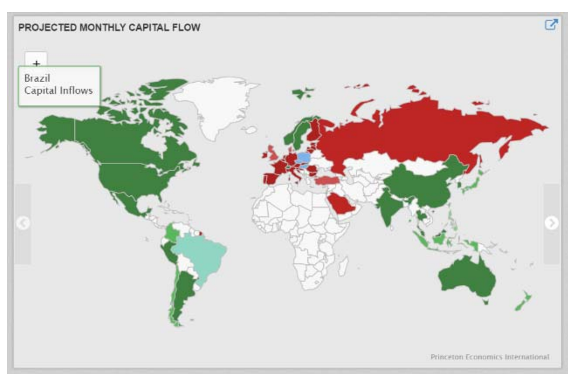
Monetarism, **Quantity of Money**, **Supply v Demand**, and **Communism/Socialism** all suffer from the same problem. They attempt to create a theory within a one–dimensional space and ignore the human element that is ultimately behind the rise and fall of empires, nations, city states, corporations, and every form of government known to history.

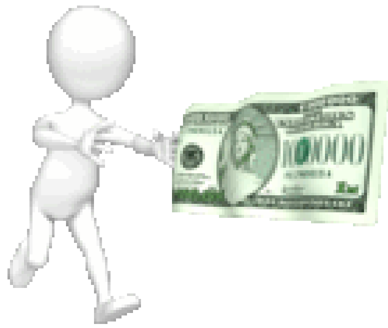
If we peel back the assumption that the quality and quantity of money is determinant of the future, we discover that there is something more to all this and that is **CONFIDENCE**.

2017 Expectations

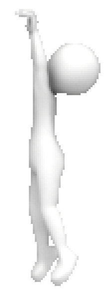
The US dollar did not elect a Yearly Bullish Reversal against the China yuan at 69569 nor did the euro elect its Yearly Bearish Reversal at 10365. On the other hand, the British pound did elect a Yearly Bearish Reversal at 14743, but it closed well below that level finishing the year at 12321. We had warned that these two signals in the yuan and euro would confirm the dollar rally. With respect to the Japanese yen, the dollar elected two Yearly Bullish Reversals back in 2014 and we have a very important gap now up to 14700, which remains as the critical Yearly Bullish Reversals for the dollar. Gold held the 2015 low for the close of 2016 and elected a Minot Monthly Bullish at 1142.

Of course, the capital flow models are still pointing into the United States. China and Russia can try structuring all the deals they like in yuan and the press will tout this as an attack upon the Petrodollar. But that really has nothing to do with the strength of the dollar in the long-term.





The dollar remains the only currency in town to park big money into these days. Yet, the Democrats and the mainstream press (including CNN) will continue to try to divide the country and oppose Trump on every possible front. Additionally, Trump's policies will be highly beneficial to the dollar and the US share market in the broader-term if we really do see tax reform. This is only confirming the trend that was projected long before Trump announced his candidacy and is by no means my personal view.



Nevertheless, we must realize that a rising dollar is the only thing that will break the back of the world economy and force restructuring. The global economy is hanging by its fingertips here and all the games employed by the left against Trump only sow the seeds of the ultimate forecast for 2032 – the shift of the financial capital of the world to Asia. The left is so against everything that has actually made America the financial capital of the world. The left believes that they can force their will upon the rest of society and are not willing to yield.

From a currency perspective, if the dollar declines, this will give much needed relief to the commodity producing emerging markets. Ironically, it would help Trump's international trade policies. A rising dollar is the only thing that will bring about a global sovereign debt crisis. A rising dollar will also mean that Trump is more likely going to fail on international trade.

Turning to the share market, we still see the initial resistance territory in the Dow at the 23,000 level during 2017, which extends up to 28,000 by 2018. A collapse in the euro and yen along with the yuan are all factors that can easily drive the dollar higher. Also, Trump's tax plan of a 10% tax to repatriate foreign cash to bring their $3 trillion home will be a windfall. We can expect this may also increase buy-backs in shares and dividend payouts that will help to stimulate the domestic economy. Lowering the corporate tax to 15% will create an economic boom that will suck the wind out of Europe and Japan.

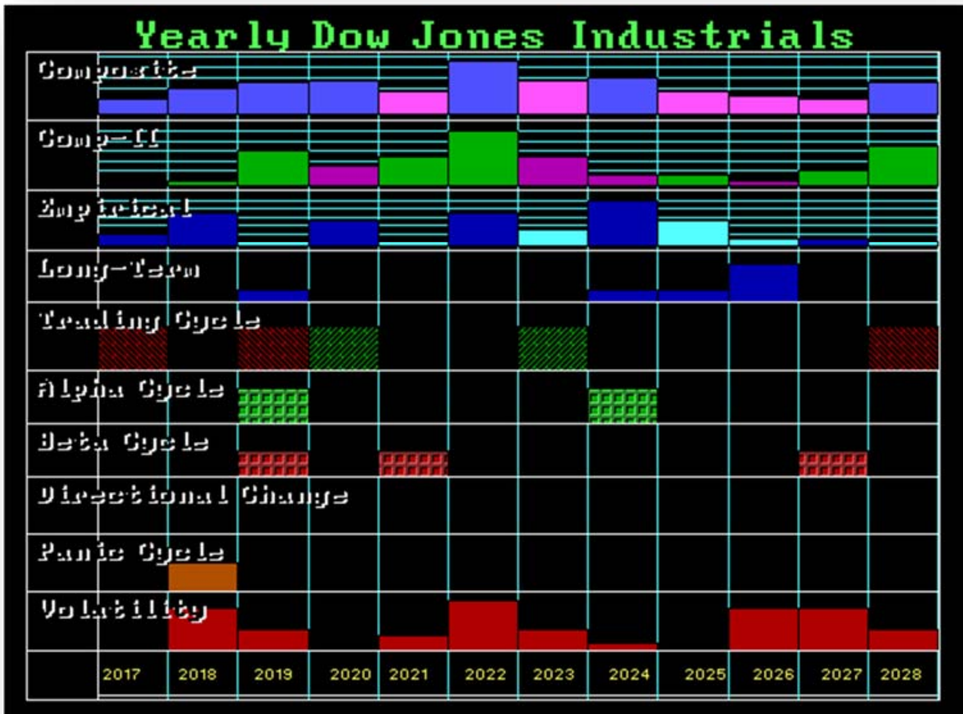
Trump Rally or Trump Bubble?

Many analysts criticized Trump for failing to see how the massive fiscal-policy stimulus and tax cuts that the Republican would bring to 'Making America great again' would look like. The constant criticism and negativity about an incoming president has to be at all-time record highs. It seems that the press is determined to make sure investors are inundated with questions and disillusionment. I would expect moving forward that virtually everything Trump does will be bashed by the press. They will never let all the facts that consumer confidence is at record highs to stand in their way.

Last year 2016 was 7 years up from the 2009 intraday low of 6469.95 but 8 years up from the lowest annual closing in 2008, which was 8776.39. So, we do have to be on guard against a possible brief correction after rallies of 7, 11, 13, or 21 years. This by no means is the major all-time high for there is not a spike isolated high. Nonetheless, there are people who have missed this entire bull market touting the end is here as they have been doing ever since 2011. Some call for an 80% drop and others say this is a rally based upon "corruption" that cannot be sustained – perhaps the most bizarre explanation. The argument is that the financial stocks are responsible for much of the rally post-election and that is rooted in hopes for government deregulation of the industry. They then reason that higher interest rates may boost banks' interest income, but add that it is a "fantasy" to assume that higher interest rates will increase loan volumes. They also maintain that simply higher interest rates will dramatically mean less investment for corporation, not more.

Obviously, this reasoning is so traditional and typical of how negative the outlook remains even when the market is crawling against new highs. Technical resistance during 2017 begins at 20323, followed by 20901 and then 21310. Our next major target area after 18500 was 21000-23000. We do not see a phase transition until after 23000.

With all the cries that this is a major high, what remains extremely interesting for this is precisely why we will see this market explode in due time. The Dow has exceeded the 2016 high intraday of 19987.63, but it has not yet been able to close above it.



If the Dow does **NOT** breakout to close above the 2016 high on a daily basis here in 2017, then this would warn of extending the consolidation process into 2018 where we could have a slingshot up and a Panic Cycle. We should expect higher volatility in 2018 compared to 2017. Nevertheless, we see that the next important target for a turning point will be 2020. That would be an 11-year high from 2009 with a possible pull back then into 2022.

It is beginning to look more like the major all-time **HIGH or all HIGHS** is coming as late as 2032 from various long-term models that make projections beyond the 12-year window of the Arrays. If that were to unfold, the confirmation would be new highs after 2024. The target then becomes 61000 level on the Dow. That would be profoundly involving a currency crisis. Note that the volatility will start to rise sharply from 2026 on out peaking in 2032.

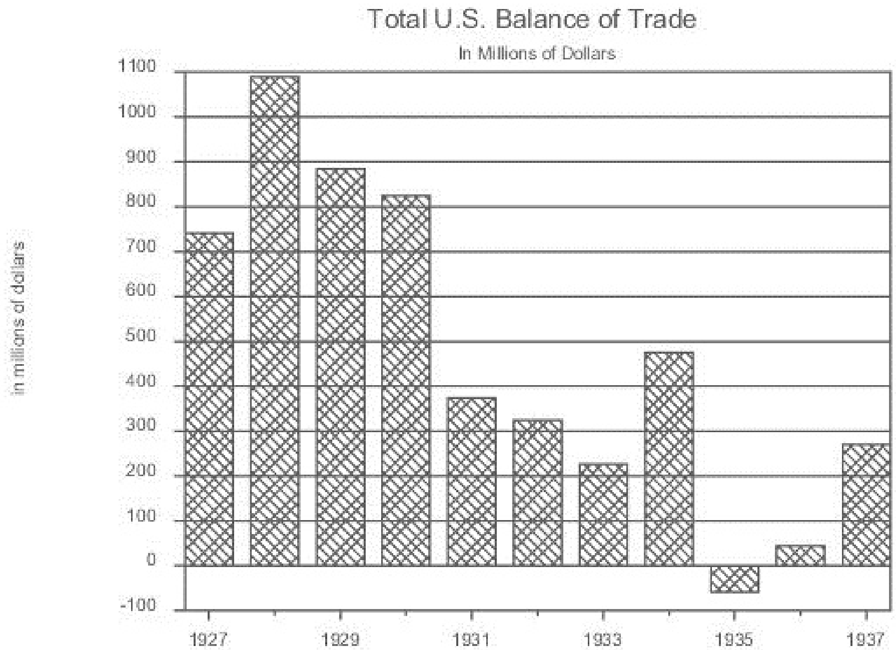
Now let's bring the focus in closer to be more practical. If we pull back and hold 13100 level at a worst-case scenario into 2018, it appears a sling-shot would take us to 37,000 as early as 2020. Yet initial support lies at the 17694 level technically. That means no serious correction would unfold without breaching that level **FIRST**. On our system model, a serious correction would **ONLY** be confirmed with a monthly closing in the Dow below 17210. The real key support long-term lies at the 15000-16000 zone so a move to 13000 seems next to impossible at this time. The S&P500 cash would require a Monthly Closing below 203350.

Therefore, the line in the sand is 17210. With the bearishness still very high, then any modest correction to that area will trap these people providing the fuel to rally to our next target in the 23000 level if not 37000 by 2020.

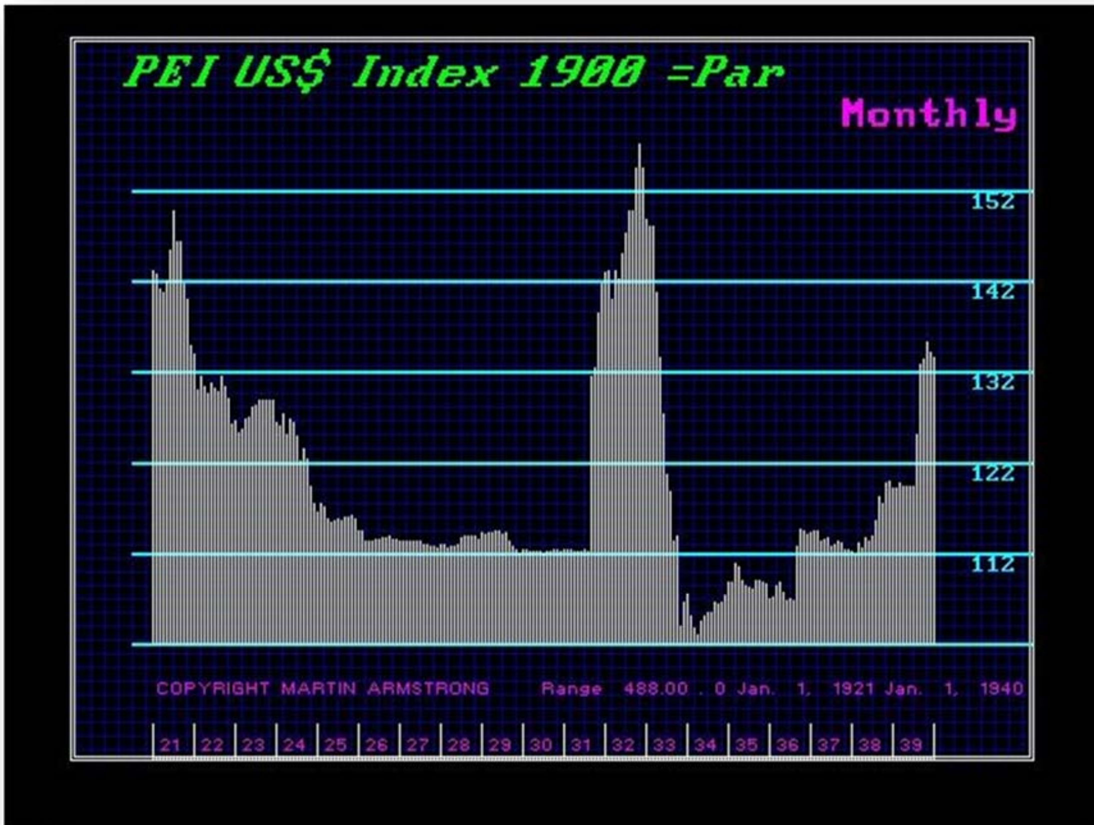
Free Trade under Assault

The real question concerning trade will be how far does Trump go. Trump does not understand international trade nor does anyone in politics globally. The entire problem with trade and jobs has been its focus on only the job side of the question and not the consumer. David Ricardo (1772–1823) developed his principle that nations should pursue their own comparative advantages. In other words, just because I might want to be a brain surgeon does not mean that I have a right to be protected by government at the expense of the patient. Any attempt to support jobs in trade within a balanced world of currency, is a subsidization of labor forcing the consumer to pay more. In all fairness, there are far more consumers than employed workers to produce any given product. So, to argue that Mexico or China are taking jobs, is to argue that the consumer should be paying more for that product. This becomes the King Solomon (Jedidiah) quandary – cut the baby in half.

Free Trade means that there should be no barriers and in this way the consumer is favored rather than the worker. If the worker demands too high of a wage or slacks in their performance, then they should lose their job and learn to stay competitive.



Trade has always been misunderstood for the two primary elements are jobs and currency. If you do not comprehend both elements, then you cannot properly manage trade no less understand it. Jobs, naturally, are always a great topic to expose by politicians for votes. This merely helps to maintain the misconception of how trade even functions and why. Honestly, there is nothing any politician has ever been able to accomplish with respect to trade other than messing up the entire world economy. The protectionism of the Great Depression was set off by (1) economic implosion in Europe reduced sales to Europe, and (2) the rise in the dollar reduced the competitiveness of US goods and lessened the cost of imports. The US entered a trade deficit with the rest of America because of the strong dollar.



The dollar soared in value as European countries began to default on their sovereign debts. The politicians misunderstood, as always, and responded with a trade war simply because the currency rose. Trump will face the same crisis once again. The failure to comprehend the currency is very critical. During the Great Depression, our Dollar Index rose nearly 50% into 1932–1933. It was George Warren who convinced FDR that the solution was to devalue the dollar.


George F. Warren (1874-1938)

One solution will be to index tariffs to the dollar. Thus, a 10% tariff across the board would be plausible on the trade issue. However, the danger of protectionism will emerge if you pick and choose between products and fail to understand the link to the currency.

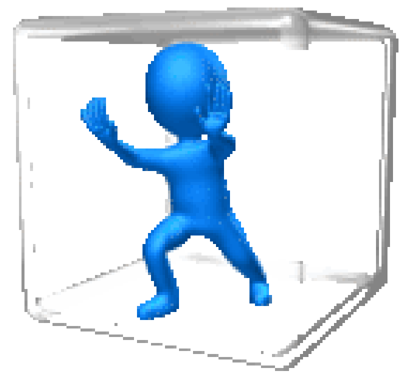
September 22nd, 1985 - Plaza Accord

From left: Gerhard Stoltenberg of West Germany, Pierre Bérégovoy of France, James A. Baker III of the United States, Nigel Lawson of Britain and Noboru Takeshita of Japan.

The left socialists are out in force to say Trump's 10% onetime tax on foreign held money by U.S. corporations will do nothing for the economy. EBay was looking to take over two companies to expand domestically. They had to decline because the expansion meant they would have to bring cash in from overseas and the added tax would make both deals unattractive. Yes, some companies will bring back cash and pay out dividends and buy back their own shares. Trump should also eliminate the dividend tax; thus, the money would go to shareholders who would pay their one-time tax on income. This will be a far better stimulus plan than the Fed handing money to bankers in hopes that they will lend it out, which never happens. Small businesses are turned down by the bankers for more than 80% of all loans. The banks do not invest in innovation; that is the mother of jobs.

Trump should impose a 10% tariff on everything, and then index it to the US dollar index. That will avoid a protectionism crisis and deal with the largest influence being the currency. The entire reason why Germany wanted the euro was to eliminate currency risk for German companies so they would not need to worry about currency swings and become noncompetitive or they would move jobs to Southern Europe.

We have to start thinking out of the box. What politicians have been doing for decades is always listen to only academics who never think out the box as a rule because they have no real-world experience. You cannot learn to be a pilot just from video games or reading books. It takes real world experience to fly a plane.



The mainstream press does not understand trade in the least and they will throw around numbers that are always in dollar terms. Disappointing trading figures came from China showing exports declined sharply in US dollar terms in December by 6.1% compared to the previous month. Imports increased by 3.1%, but this was mainly explained by the replenishment of stocks before the early Chinese New Year festival at the end of January. As a result, both exports and imports were weaker than expected by experts. But these experts are not so much experts. Their view of the world is only through dollars. If imports rise and the dollar declines by the same amount, there is no real increase in imports for it is merely impacted by currency. If the dollar rises and imports increase by the same amount, again it is currency not goods. For you see trade is measured ONLY in cash flows. There is nobody there counting the number of BMWs coming in at the dock.

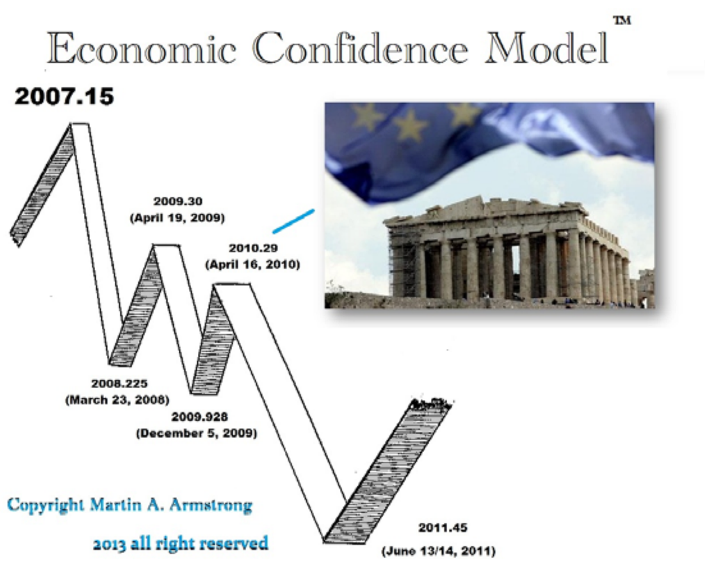
Meanwhile, automakers such as Ford reassured Trump that the company has decided not to move its Lincoln assembly operations from Louisville, Kentucky to Mexico. Fiat Chrysler has announced the creation of 2000 jobs in the US as the new jobs are to be created in two factories in the US states of Michigan and Ohio. According to the company, the group plans to invest one billion dollars into the sites by 2020. So, welcome to the new future. Trade will be a heated topic as we move forward into 2020.

Greece the Key to Europe

One of the more interesting markets is that of Greece for despite all the subjugation the European Union (EU) has done to Greece and the Greek people, they may hold the key to the survival of the EU more than Brussels realizes. Far too often those who hold the reins of power are too myopic in their view that they confound reality with their power. While the EU has done its best to subjugate the Greek people and hold then responsibly for the antics of their politicians, the EU and Merkel forget that it was the Reparation Payments imposed to punish the German people for the actions of their leaders during World War I that led to the rise of Hitler. The EU is fostering the rise of the extreme right wing in all countries thanks to Merkel's insistence upon austerity.

Angela Merkel and her party, the Christian Democratic Union (CDU), remain clueless about the economic history of Germany which has been made apparent through her insistence upon austerity that is tearing the EU apart at the seams. Merkel's belief that the ***quantity of money*** is the cause of inflation has been proven dead wrong after the central bank's quantitative easing since 2008 has had no impact upon inflation for the past 8 years. At what point does one admit error? Never?

German Vice Chancellor, Sigmar Gabriel, told Der Spiegel magazine that the breakup of the EU is no longer unthinkable because of Merkel's desperate clinging to austerity. He asked Merkel, ***" [W]hat would be costlier for Germany: for France to be allowed to have half a percentage point more deficit, or for Marine Le Pen to become president?"*** He is still waiting for Merkel to answer that question.



Merkel's economic policies of austerity have sent Europe into an economic depression, and opening arms to refugees has sent Europe into a terrorist crisis fueling the rise of the extreme right wing. One has to ask, just how long can Europe endure this lack of democratic process where Merkel is dictating policy to the rest of Europe?

The Greek debt crisis began precisely on the Pi Target in 2010.29 kicking off the beginning of the **Sovereign Debt Crisis** our model targeted would begin in Europe. Angela Merkel supported the Greek bailout, but demanded that Greece had to repay any loan. As the **Sovereign Debt Crisis** became much worse, Merkel refused to bend demanding Greece strip-mine its own people to pay for the abuse of their politicians.

Merkel's hardline austerity policy only resulted in the international view of Merkel turning very negative. On July 15th, 2015, Time Magazine wrote, ***"Berlin's role as the enforcer in negotiations over Greece's debt could cause***

lasting damage to Germany's global image." Indeed, Merkel's reputation and international standing was being called into question. It was pointed out that Greece forgave the German debt after World War II, but Merkel was not moved.

Markel has kept her own private pollsters to make sure she turns and stays with the popular swings. She really bends in that regard rapidly. When her image was tarnished due to her policies on Greece, is when, without a European vote, she changed the subject shifting it away from Greece to the Middle East solely for her personal political career. The Washington Times wrote on September 10, 2015, ***"Angela Merkel welcomes refugees to Germany despite rising anti-immigrant movement."***

The entire refugee crisis was created by Merkel as a diversion because she was being seen as the wicked witch of the West. Germany was being viewed as the harsh enforcer of loans to really save Merkel's career – not Greece. The entire reason for the refugee crisis was simply to change the opinion of Merkel globally from a loan shark to the caring Mother Merkel. She was named Person of the Year by TIME Magazine. Europe is now paying the price because Merkel was simply concerned about her polls. Of course, Hitler also made the cover of TIME in 1941. Der Spiegel also then put her on the cover and called her "Mutter (Mother) Angela for letting in the refugees.

NEWSPAPER OF THE YEAR

THE TIMES

2 How to write the perfect sex scene

Some tips for Morrissey from Ben Macintyre and Caitlin Moran

Tim Montgomerie Socialism won't help the poor

Lawson to take lead in campaign for EU exit

Putin defies West with strikes on Syrian rebels

Raids risk pouring gasoline on fire, says White House

IN THE NEWS

Body of evidence

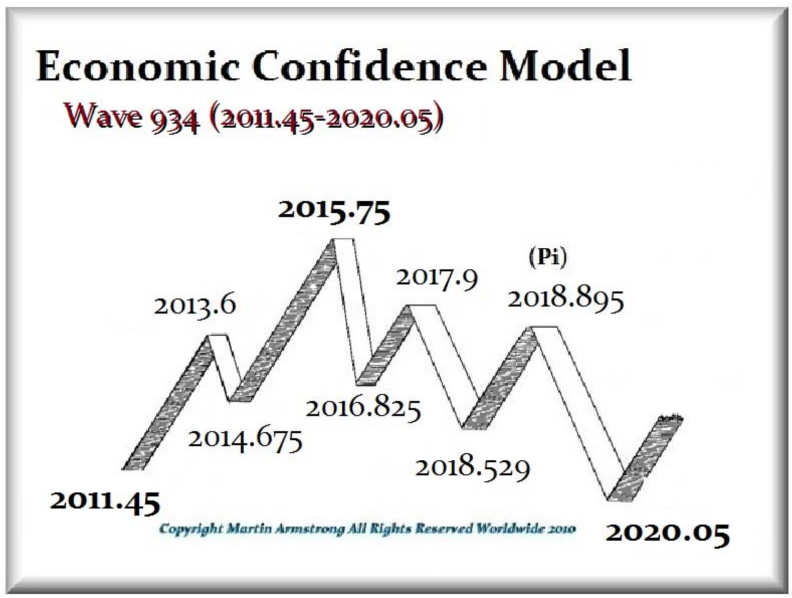
VW diesels recalled

Mob kills Muslim

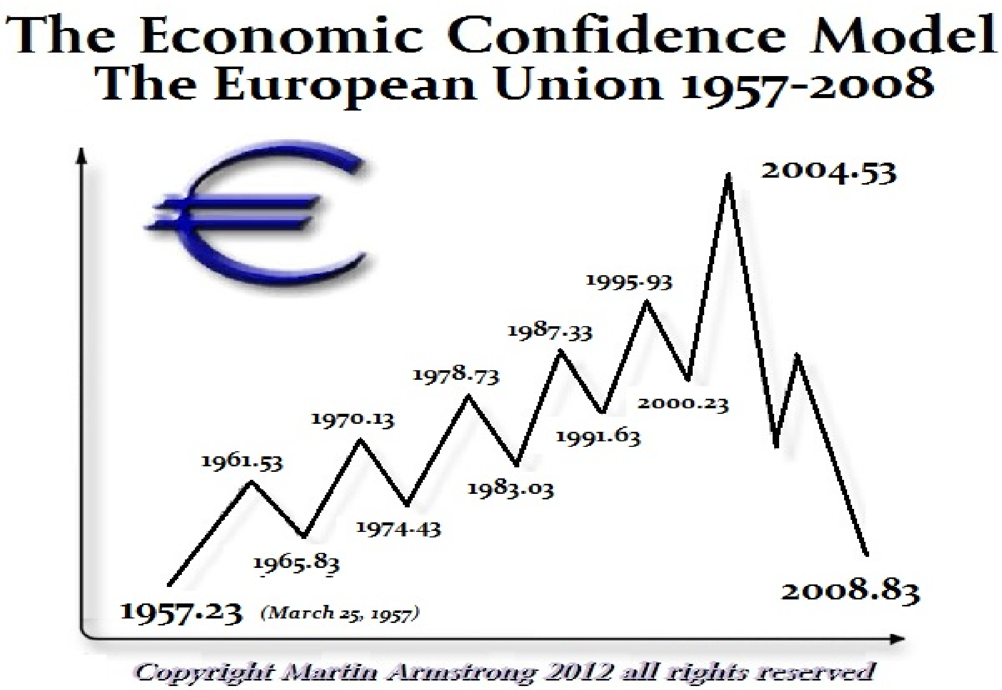
House prices to rise

Manchester clubs win

The Refugee Crisis thus began with the peak in government on our model projected for October 1st, 2015 (2015.75). When Russia invaded Syria on the very day of the **Economic Confidence Model**, it signaled that Syria would be a focal point of this wave. The Refugee Crisis has been monumental. The United States has been trying to overthrow Syria for Saudi Arabia and Qatar. The outrage of the fighting in Aleppo criticized Russia without any mention of who they are fighting – rebels supported by the CIA, which included al Qaeda.



Finally, the CIA has at last acknowledged that it played a military role in Syria. It appears to be retiring, in order not to be associated with atrocities recently discovered by the Russians carried out by the very people championed by Obama and the CIA. Yet the CIA and the Pentagon are fighting and pointing fingers at each other. What the CIA has done with its nation building agenda, hopefully Trump will end. The entire refugee crisis that has engulfed Europe was created by support rebels to gain control of Syria – another nation building agenda. ISIS never attacked Israel because they were on the same side against the Shiites of Iran and Syria. Only when Russia defeated the West backed "rebels" in Aleppo did the West see who they had really been supporting.

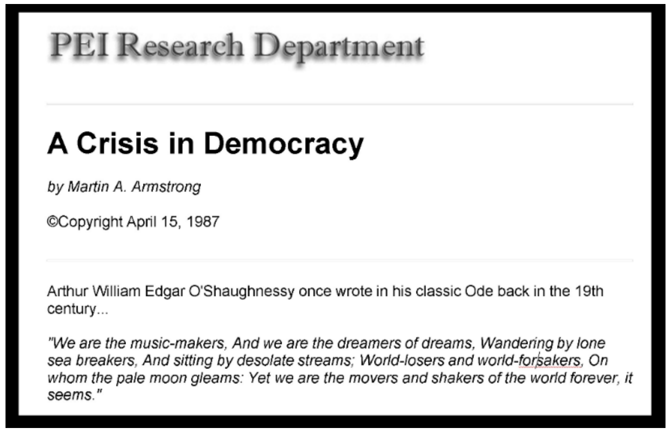


Ironically, the key to the EU surviving lies in the very country they have sought to impoverish because of the mismanagement of their politicians – Greece. Indeed, Greece joined the euro in 2001. Cyclically, Greece has the first window of opportunity to exit the Eurozone in 2018. There is a serious risk that the Eurozone will collapse entirely by 2021.

The peak in Europe came in 2004 when on May 1st, that year 10 new members were accepted into the European Union that year; Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia. This eventually led to the treaty of Lisbon in 2007. Bulgaria and Romania joined the EU in 2007 with Croatia joining in 2013.

The Eurozone consists of Austria, Belgium, Cyprus, Estonia, Finland, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, and Spain. We clearly have a serious risk moving forward that the Eurozone will crack perhaps as soon as 2018.

The exit of Britain has set in motion the trend toward rising discontent within Europe. We are witnessing separatist movements from France, Austria, Italy, Spain and rumblings are starting to rise in Southern Germany (Bavaria) opposing the North. The entire problem has been that the deliberate design of the EU was intended to eliminate Democracy creating an unelected government where the people would vote only for Parliament that has no real power.



PEI Research Department

A Crisis in Democracy

by Martin A. Armstrong

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Arthur William Edgar O'Shaughnessy once wrote in his classic Ode back in the 19th century...

"We are the music-makers, And we are the dreamers of dreams, Wandering by lone sea breakers, And sitting by desolate streams; World-losers and world-forsakers, On whom the pale moon gleams: Yet we are the movers and shakers of the world forever, it seems."

On April 15th, 1987, we willused a report entitled Crisis in Democracy. What was appearing at that early stage in the game, was a drive to eliminate the right to vote on anything substantial that would reduce the power of government. We wrote in that report:

> *"The future will spawn a crisis of a different sort indeed and its forthcoming can be read easily upon the chart patterns of bonds, stocks, gold and clearly in foreign exchange. The forthcoming crisis will be a Crisis in Democracy for to control our financial destiny in a more orderly fashion, we will give up much of our rights to privacy in our personal financial affairs."*

A Crisis in Democracy' by Martin A. Armstrong, ©Copyright April 15, 1987

How could we write something that far back? History is the guidebook to the future. It simply repeats because the self–interest produces the same result. Politicians have the same game book. No matter what country or period, politicians arrive at the same idea that is typically the surrender of some vital right to further their own power. To accomplish that goal, they will even pull–in children to surround them whenever they craft some law they want to spin as necessary. They will always portray themselves as the great savior of the people. There is always the same play book.

The Roman Emperor Trajan introduced the ***'Alimenta Italia'*** to buy public support. This program was feeding and educating orphans and the most destitute of Rome's citizens because he was the first born in Spain not of Italian parents. Once again, in ancient times we see politicians using children.

The problem emerging from Europe is the very structure of the new federal government was cleverly crafted to ensure that the heads of the EU would never be subject to election by the people. The EU created the illusion of a democracy by allowing the people to only elect members of Parliament, which was just for show since the Parliament neither introduces legislation nor do they vote on anything. The Parliament has absolutely no power to do anything and that includes even electing the leaders of the European Commission who hold the real power.

The EU is rapidly growing and expanding according only to its self-interests of federalizing Europe. There is absolutely no election process so there is no possible way for the people to even object or change direction of the EU government through any democratic process whatsoever. The only means to change the direction of government is indeed civil revolution. The EU is operating under anti-democratic principles and was designed assuming the great unwashed (the common, lower-class), were too stupid to know what was best for them. The EU is not even a republic; it is disconnected completely from the people for there is no accountability to the people whatsoever in a democratic process. The EU president is selected by the political heads of the member states. Jean-Claude Juncker did not stand for election by the people.

This is the next step in the evolution of government power much like the rise of communism claiming this is for the benefit of the people. There is no actual **Social Contract** either implied or specified. It is all about government maintaining control. The political elite have determined that the people are just too stupid to know what is best for them, so the idea behind the EU was to force a federal government upon the whole of Europe under the senseless idea if there was one government then this would end European wars. They have totally failed to comprehend that this does not alter memories nor culture. Therefore, in their mind, there should be no, **"We the People"** even tolerated.

The Troika has seized control of the European economy in a real life example of pure tyranny for it is a 3-part commission that is charged with monitoring the Euro debt crisis. There would have been no crisis had there been no real intent to create a monetary union to federalize Europe rather than leave it as an economic union of cooperation and trade. The Troika are solely responsible for managing the policy to solve the Euro debt crisis. The policies from negative interest rates to bail-ins of banks as took place in Cyprus, are all the policies of the Troika, and if the people disagree, they cannot be removed for they never stand for election. This is pure economic, tyrannical, dictatorial power.

Kenneth Rogoff
Professor of Public Policy& Economics
at Harvard University

Kenneth Rogoff is the Professor of Public Policy and Professor of Economics at Harvard University. Rogoff calls critics of the negative interest **"ignorant"** despite the fact they have been used since 2008 without any success. He has the audacity to say that people should not look at their short-term personal losses, but rather the **long-term vision of the central banks**. He supports hurting people for a theory that negative rates will eventually punish people to force them to spend. This idea has no precedent in history whatsoever. We are at a 5,000 year low in interest rates.

Yes, negative interest rates lower deficits, but who will buy the negative debt besides central banks? Why borrow money at all and compete against the private sector? That is why interest rates are negative to punish savers for saving while banks look for government debt with "no risk" rather than lend into the economy to create that stimulus. Stop borrowing money by government altogether and just print what is needed for the expense of government. Stop this elitist Marxist concept that people like Rogoff can play the role of Emperor and manipulate society to do whatever he believes is appropriate.

Just before his death in 1946, John Maynard Keynes (1883–1946) told Henry Clay, a professor of Social Economics and Adviser to the Bank of England, that he hoped that Adam Smith's "Invisible Hand" would help Britain out of the economic hole it is in***: "I find myself more and more relying for a solution of our problems on the invisible hand which I tried to eject from economic thinking twenty years ago."***

Economists such as Rogoff are still basking in the ideas of Karl Marx that government **CAN** and **SHOULD** manipulate society to achieve the public policy dreams of those in power. Rogoff is not willing to even think about what he has done to the pension system and how we are looking at states going broke in Europe no less the USA like Illinois. In California, less than four years has pass since it fought to achieve a balanced budget raising taxes to the highest in the nation. Politicians cannot manage the economy and negative interest rates are destroying pensions and there is no long-term gain because Rogoff cannot imagine the next step – the central banks are trapped and can NEVER resell what they have bought under Quantitative Easing. We are rapidly approaching the point of no return – or **NO BID**. That is when government tries to sell its debt to pay off the last chunk and there is **NO BID**. Oops! Checkmate!

Unelected Troika

Christine Lagarde Head of IMF | **Jean-Claude Juncker** EU President | **Mario Draghi** Head of ECB

The Troika is currently made up of the Christine Lagarde of the International Monetary Fund (IMF) who was put in that position by her friend US President Obama, not even a European. Then we have Jean-Claude Juncker the President of the European Commission (European Council), and Mario Draghi at the head of the European Central Bank (ECB) who is ex-Goldman Sachs. Not one of these people stood for election, yet they dictate the fate of the European people. Even if the people rise up and disagree with negative interest rates and bail-ins, there is no non-violent means to remove them from this dictatorial role. Britain is being asked to surrender all its rights to the Troika. Either there is a revolution with blood on the streets, or there must be these referrendums to leave the EU. There is no other alternative.

From this position, tyranny always eruptes because government sees itself as the nation constituting its soul not the people. Therefore, those who desire to rule over the people assume we surrender our individual rights like serfs tilling the soil for the lord of the manner in return for the safety of his castle.

Therefore, the crisis facing Europe comes from the political front with the design of the EU to eliminate the right of the people to vote or be heard, as well as the mass migration of immigrants that are really for economic reasons rather than true refugees. However, the politicians cannot admit error in this regard without fearing they will have to take responsibility for the

rise in terror attacks within Europe.

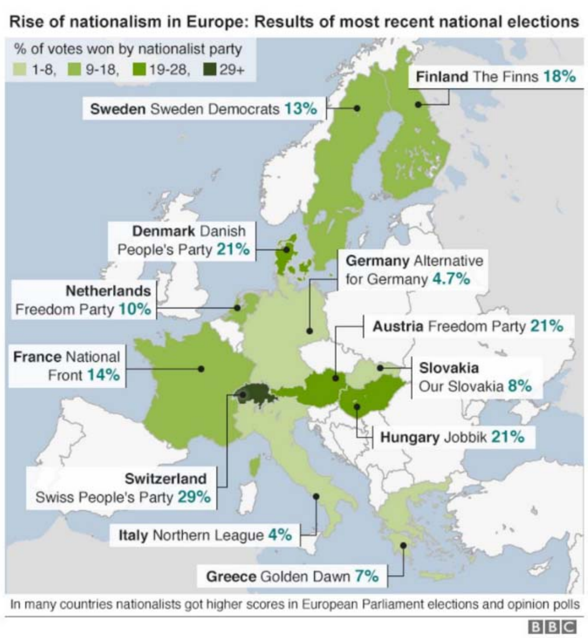
Schengen Agreement June 14th, 1985

The cornerstone of the EU was to be the freedom of movement to create the United States of Europe. This became known as the **Schengen Agreement** to create a borderless Europe signed on June 14th, 1985 between five of the then ten member states of the EU. It proposed the gradual abolition of border checks at the signatories' common borders. Measures proposed included reduced speed vehicle checks, which allowed vehicles to cross borders without stopping, allowing of residents in border areas freedom to cross borders away from fixed checkpoints, and the harmonization of visa policies. However, this Schengen Agreement did not come into effect until March 26, 1995 (1995.232), eliminated border checks among its members and allowed foreign visitors to travel throughout the area using one visa.

Britain has been preventing those non–EU citizens with Schengen visas from freely crossing the border into Britain. Someone from Ukraine with an EU visa cannot travel to Britain and subsequently to many former British commonwealth states such as Bahamas even for a vacation. Switzerland also is experiencing an anti–EU immigration trend.

The **Schengen Agreement** is under attack because of the rise of terrorism. This is illustrating the concerns that are rising both from a civil unrest perspective as well as economic in addition to security. Nonetheless, this topic is triggering a conflict between the European Parliament and the European Commission on the one hand and the EU Member States on the other side. The EU leaders want to introduce systematic and coordinated border checks on individuals at entry and exit from the Schengen area.

Brussels has been fighting Poland and Hungary and passports are being checked again, even between Denmark and Sweden, because now everyone is afraid after Germany allowed rapists and terrorists into Europe and tried to cover it up. Brussels remains in a state of denial and tries to force the EU upon everyone while denying any democratic process in order to save the jobs of the Eurocrats.



The **Schengen Agreement** is just one domino in the process of the collapse of the EU structure. The collapse of the **Schengen Agreement** was inevitable and not exclusively caused by the refugee crisis, yet that is the primary visible reason while lurking beneath the headlines remains economic.

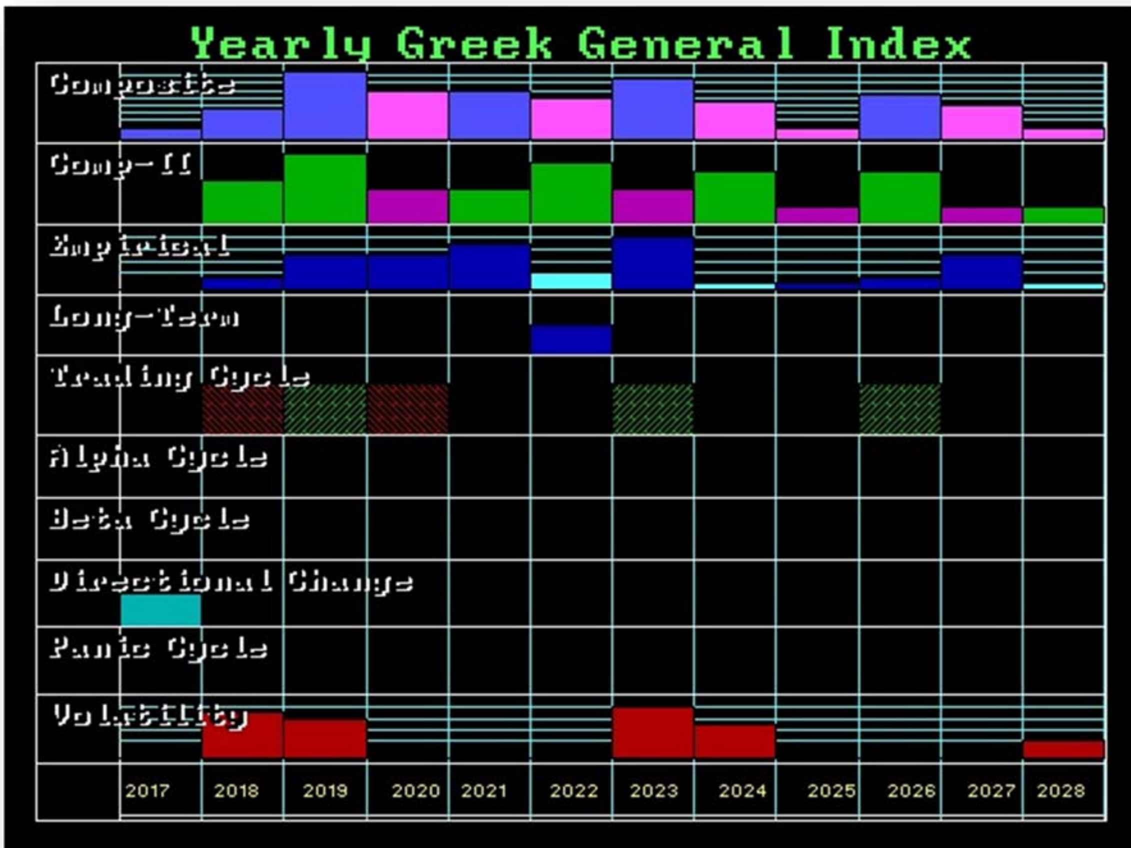
Moreover, the **"refugee crisis"** has led to the strongest rise in third-party movements to overthrow the ruling power in Brussels. The BBC has illustrated the rising movement throughout Europe. The rise in this movement demonstrates that the end of the EU is rapidly approaching. With each terrorist attack, the cornerstone of the EU dream to make Europe the new United States with freedom of movement is coming closer and closer to an end. The Shengen Agreement was signed June 14th, 1985 (1985.452). The most interesting aspect of this is that 31.4 years brought us precisely to the week of the Presidential election of Donald Trump on November 10th, 2016 (2016.852), which took place on November 8th, 2016 and became official only on the 9th. This is very interesting to see moving forward with hindsight what this date really meant to Europe. Taking the effect date of March 26, 1995 (1995.232), this suggests that the earliest collapse entirely would be 2018 and the latest 2021.

Greece may indeed be the key to watch for the fate of Europe. The Greek General Share index has been down for 17 years reaching a low in 2016 at after 42082 yet it closed higher than 2015 at 64364. This may prove to be the major low. What is most interesting is the fact that the Greek share market peaked in 1999 with the introduction of the euro. This clearly demonstrated that the free markets did not accept nor did they believe that Greece would benefit from joining the euro.

Consequently, the Greek market was a clear indicator of the failure of the coming euro and on the opposite end, we may see this indicator provide the signal that the euro is also finished. If the 2016 low holds, then a year-end or quarterly closing above 84765 may indeed confirm that Greece will separate from the EU and at last begin to put its people before Brussels. This market may be a very important indicator as to when Europe will begin to break apart. The

Monthly Bullish Reversal to watch lies at 73120. A month-end closing above that will signal we may indeed witness a new bull market in Greece.

Technical support lies at 433-443 during 2017 and the first target resistance stands at 952. We have exceeded the 2016 high at the 659 level and elected the first three Weekly Bullish Reversals. So, pay attention to 719 on a weekly closing basis. Exceeding that will be our first signal that the 2016 low may indeed remain as the major low for now.



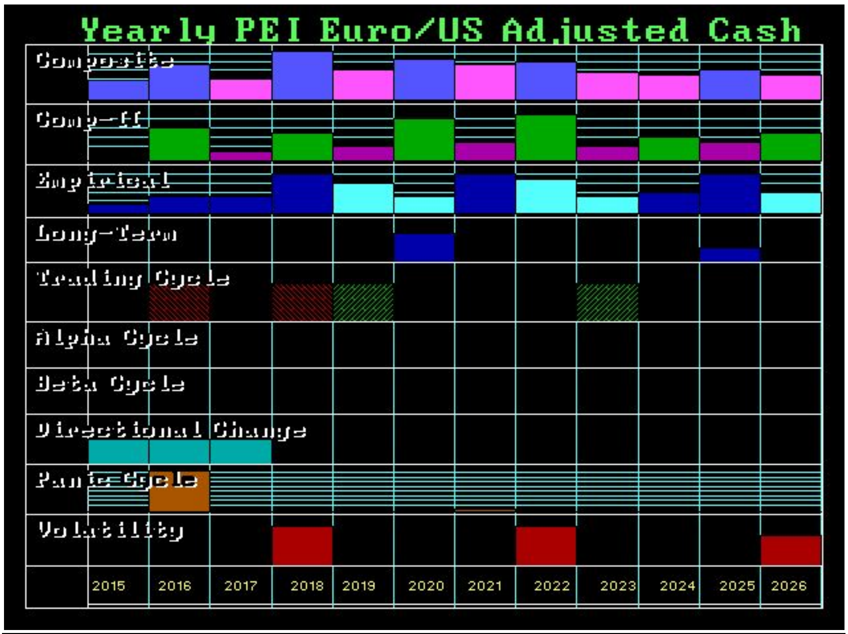
We do see 2017 as a Directional Change and the next big turning point should arrive in 2019 or 2021. Therefore, closing 2017 **ABOVE** the high of 2016 (659) should indicate that we are moving higher into 2019. Given this pattern, we may indeed see Greece separate from the EU. That would then be fantastic for its economy since the whole problem has been the mismanagement of Brussels.

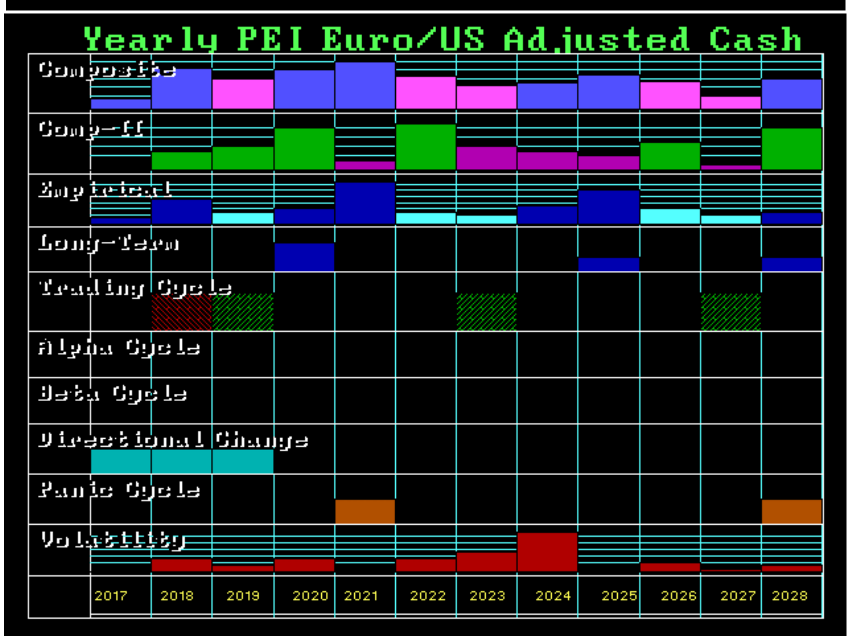
So, pay close attention to Greece. This may be the leading indicator for the demise of the euro.

The Euro

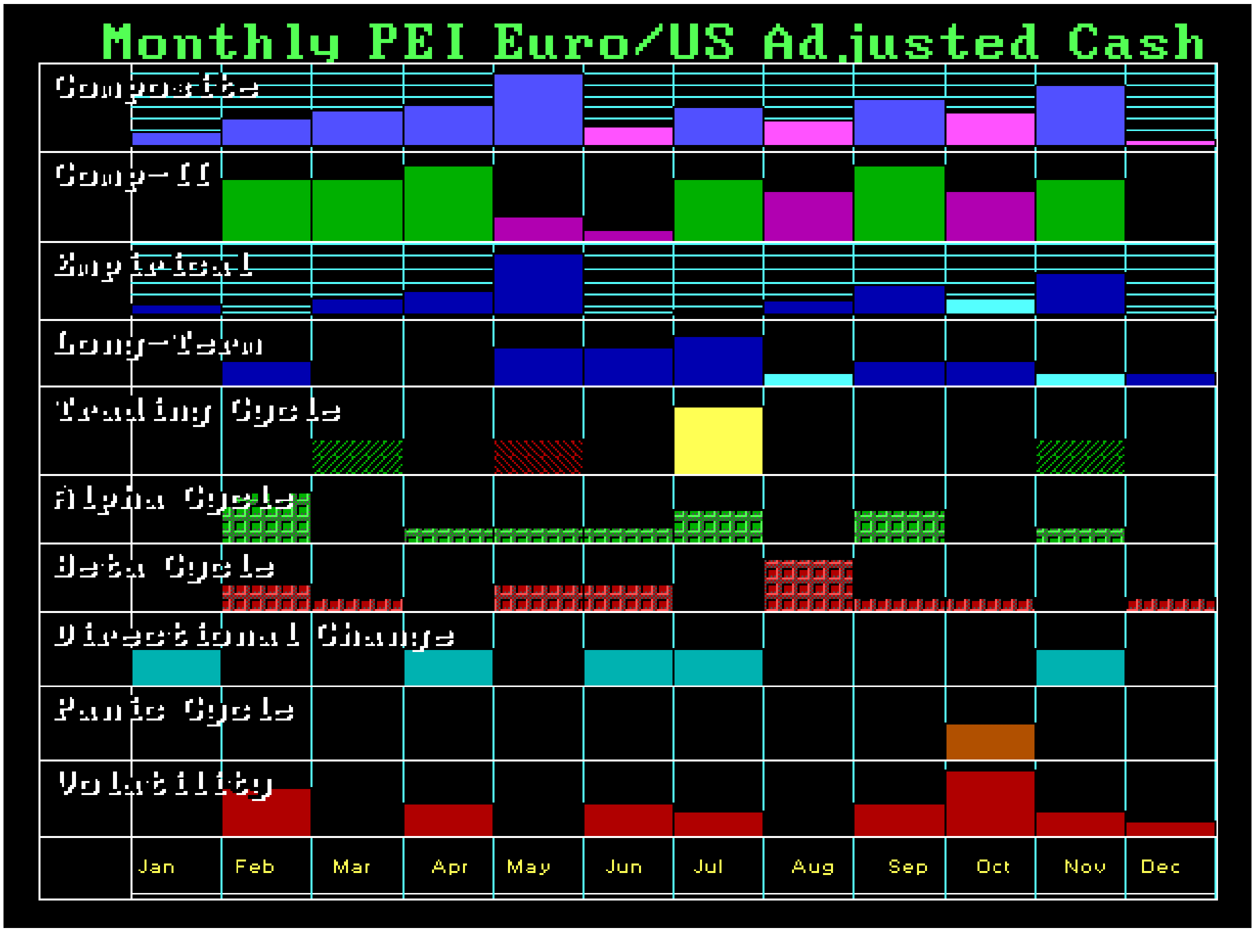
The euro bounced off of the Yearly Bearish Reversal at 10365 and the intraday low for 2016 was 10352 closing the year at 10513. This too warns that we may not be ready to meltdown just yet. However, a breach of the 2016 level will signal the collapse is beginning. On our model, the Euro is below all major critical support so there is little hope of reversing the decline. Technical resistance is forming as low at 10641. If the Euro cannot rally above 10700, then a break of 10351 may signal another 2 to 3 years down and dirty. So as Mark Twain said, ***"The reports of my death have been greatly exaggerated.***" Keep in mind the euro still has a few years left. However, its days are clearly numbered, as we know it today.

We did not elect even any Minor Bullish Reversals on the Monthly or Quarterly level at year end. We simply avoided the Yearly Bearish Reversal. Indeed, the Timing Arrays from 2015 and 2017 were showing Directional Changes every year into 2017 warning of choppiness. The year 2016 was the Panic Cycle Year and 2018 was the next important turning point target. After that, we had a split target for 2020 with the Empirical highlighting 2021. The new Timing Array for 2017 has shown more of a consolidation on 2021, yet the Long-Term timing remained unchanged.





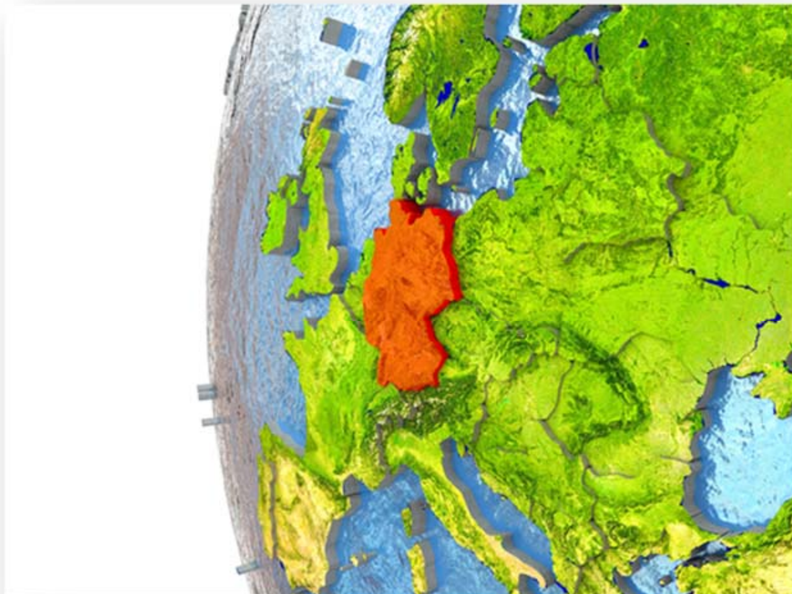
Consequently, we may see the Euro take a pause at this time, but there does not appear to be any serious reversal in trend.



When we look at 2017 from a monthly perspective, it certainly appears that May might prove to be the major turning point. If the euro holds on and moves sideways to higher into May, then we may see it turn after that point in time.

Keep in mind that 2018 is the major target. This is the first point in time that we see it possible for the Monetary System to begin to crack. If the Euro were to consolidate holding the 2016 low after bouncing off the 10365 Yearly Bearish Reversal, then a high in 2018 will be followed by a sharp decline and perhaps its demise going into 2021. That will be 13 years down from its high in 2008. That will be a major turning point that we will have to see, for there lies the potential for a new world currency system at that point in time.

Germany



Chancellor Angela Merkel's policies with respect to the refugees has resulted in rising tensions within Germany. One even hears separatist comments in Bavaria from the north. They still celebrate the war with Prussia in Bavaria. Even within the German leader's conservative party, the Christian Democratic Union, there is rising discontent over Merkel's approach to migrants.

One politician of the CDU since 1990, Erika Steinbach, now 73, has been at odds with Merkel. Steinbach has criticized the most recent Greek bailout and Merkel's welcoming approach to migrants in 2015. Germany saw 890,000 asylum-seekers arrive in 2015 and 280,000 in 2016. Steinbach has come out and said ***"I can only draw the honest conclusion of leaving the CDU."***

Steinbach said that allowing people into Germany for months without identifying them properly went ***"against our laws and against EU treaties."*** She also slammed Merkel saying that in the CDU has marginalized, "the conservative element" in Germany in a deliberate manner and has sought to "stigmatize" anyone who is conservative as right wing.

The nationalist Alternative for Germany, or AfD, which has gained in polls by attacking Merkel's migrant policies, is tapping into that conservative base as BREXIT and Trump achieved. The AfD will enter the German parliament in the elections expected in September interjecting a conservative opposition to Merkel, if she can survive. Donald Trump has come out and criticized the refugee policy of Angela Merkel saying; ***"I think she (Merkel) has made an extremely catastrophic mistake, letting all those illegals into the country."***

Germany recently had an impression of the implications of this policy of open borders, he added, with a view to the Christmas market attack in Berlin on 19 December. On the German role in the EU, Trump says: ***"Basically, the European Union is a means to an end for Germany."*** Trump added that Germany should have strengthened itself more strongly for security zones in Syria and said: ***"The Gulf States should have paid for it, but they have money like no other."***

Monsignor Carlo Liberati, Archbishop Emeritus of Pompeii, said that Islam will soon become Europe's main religion thanks to Merkel's policy. The vast number of Muslim migrants, alongside the increasing secularism of native Europeans, will be Europe's doom. He was quoted by the Italian Catholic journal *La Fede Quotidiana*, the archbishop said: ***"In 10 years we will all be Muslims because of our stupidity. Italy and Europe live in a pagan and atheist way, they make laws that go against God and they have traditions that are proper of paganism. … All of this moral and religious decadence favours Islam. … We have a weak Christian faith, …[t]he Church nowadays does not work well and seminaries are empty."***

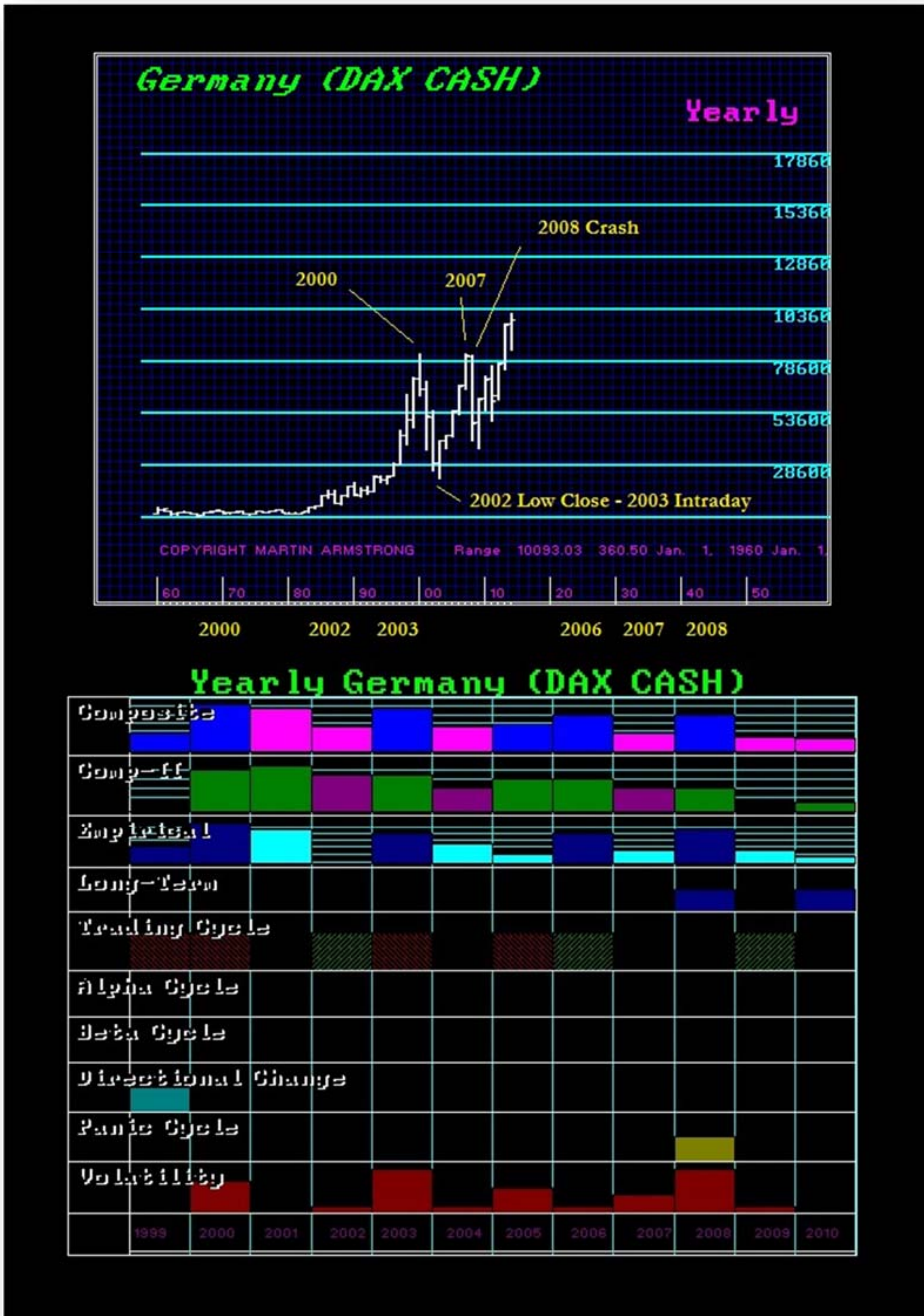
Bavarian nationalism is a point of view that asserts that Bavarians are a nation. The origins of the rise of Bavarian nationalism as a strong political movement were in the Austro-Prussian War and its aftermath. The Bavarian Soviet Republic (German: Bayerische Räterepublik) was the short-lived attempt to separate from Germany 1919–20, but it was quickly crushed by Reichswehr and Freikorps forces. It sought independence from the also recently proclaimed Weimar Republic at that time, which went into hyperinflation following the 1918 Communist Revolution in Germany. Therefore, much like Quebec, there remains an underlying feeling of Bavarian nationalism.

The DAX – 13 Year High?

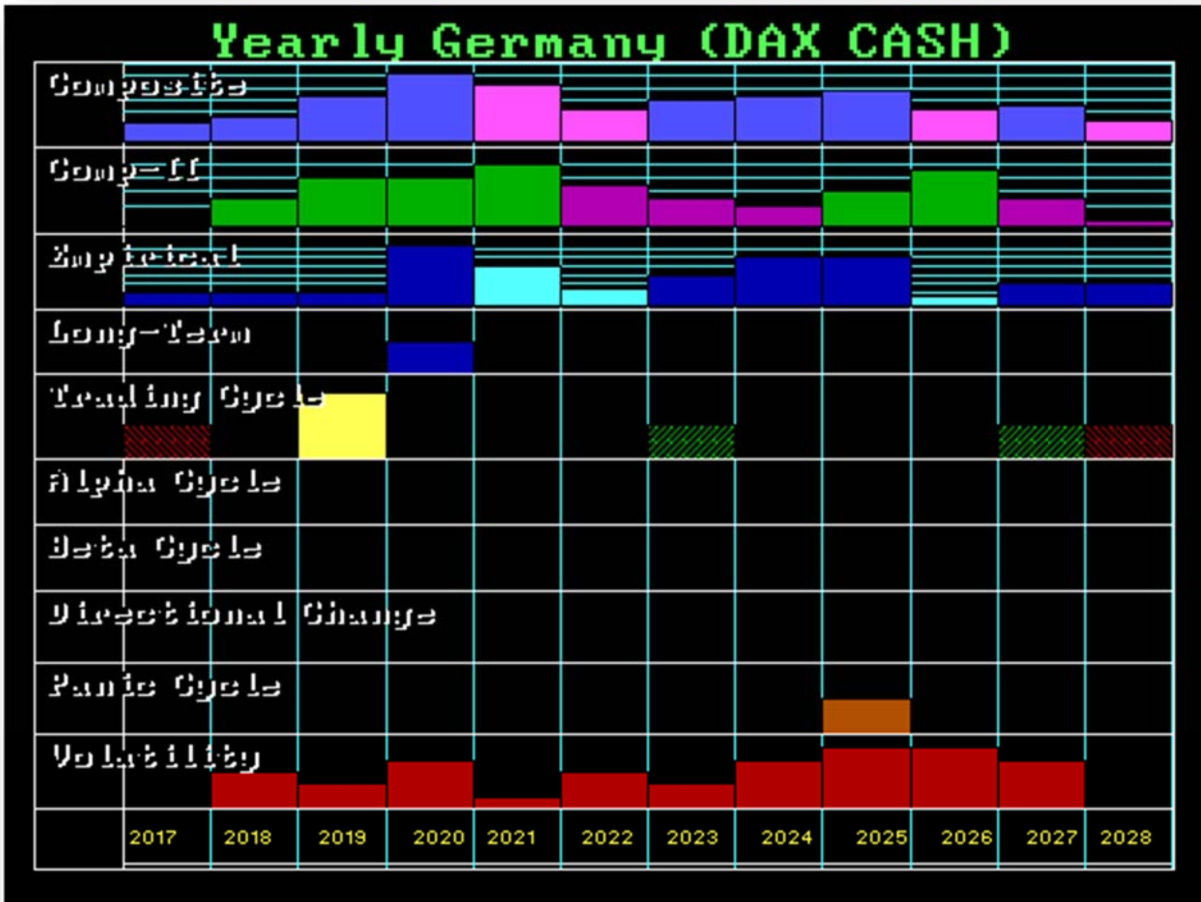
The DAX has made a 12 year high intraday in 2015 at 12390.75, but 2016 managed to close higher 11481.06 raising the concern of a 13 year high. It now becomes imperative to exceed the 2015 high intraday in order to see this market advance further. A failure to exceed the 2015 high intraday will signal there remains a risk of consolidation into 2018 before resuming an uptrend into 2020.

The overhead resistance stands at 12675 and 12845. The Weekly Bullish Reversal stands at 12120. Our Monthly Bullish Reversal stands at 11636 so pay close attention to this number.

We have not elected ANY Monthly Bearish Reversals from the 2015 intraday high. This leaves the door open to an extended rally into 2020 with no pullback. The main bank of support lies at 8968 followed by 8408. The Yearly Bearish Reversal is well below the market at 5913.



The Yearly Forecasting Array we published back in 1999 did a pretty good job of picking the turning points. The Panic Cycle was project out 9 years in advance targeted 2008, which proved to be the lowest annual closing.



As we look ahead, it appears that 2020 will be the primary target for a turning point. That will be 17 years in accordance with twice the 8.7 frequency from the major 2003 low. It will also be 11 years up from the 2009 low. The conjunction of these two cycles pointing to 2020 should result in an important high.

Britain

The **BREXIT** vote was a major shock to most as was the election of Trump. It is hard to imagine that only our computer correctly forecast these two events. Oh yes, there are a few people now claiming that they forecast Trump. We are not claiming it is just personal opinions not based on quantitative modeling. That's not much more than a lucky guess. The real question is how was it possible that our computer was the only thing to forecast both events? Or was it the fact that the polls were deliberately manipulated to try to pursuade the people to vote the opposite way?

The scare tactics hurled at the people were designed to paint anyone who favored **BREXIT** as a racist isolationist. This was not much different from portraying Trump as racist and anyone who voted for him was a deplorable scum. The manipulators argued that to exit because of the Muslim invasion was racist and that economically, nobody would trade with Britain. They ignored the fact that the most prosperous nation on the European continent was Switzerland who was **not** part of the EU nor did they surrender their currency to the Euro.

It was very clear economically and politically that Britain should leave the European Union (EU). The vote came precisely on target – 43 years from joining the EU in 1973 = 2016. Britain was not included when the precursor to the EU was actually formed following World War II. The Treaty of Rome was signed by Christian Pineau on behalf of France, Joseph Luns from the Netherlands, Paul Henri Spaak from Belgium, Joseph Bech from Luxemburg, Antonio Segni from Italy and Konrad Adenauer from the Federal Republic of Germany. The Treaties were ratified by National Parliaments over the following months and came into force on 1st January 1958.

The "British problem" was the plain fact that Britain was not a member of the Treaty of Rome. The absence of Britain constituted the main political problem that the EEC had to face during its early years. The British government refused to participate for different reasons that spanned commercial, political, and even bonds with its colonies and former colonies, most of them integrated in the Commonwealth. Subjecting the entire British Commonwealth to the Treaty of Rome was not workable.

Nevertheless, Britain refused to join a customs union yet it defended the establishment of a free trade area where internal customs were abolished, but each national government would maintain their sovereignty of enacting their own tariffs with regard to third countries. It was clear that the Treaty of Rome was the first step in surrendering the sovereignty of national states. The goal was to create a federalized European institution from the outset. In this respect, the British still remain skeptical of surrendering their sovereignty to a European political union.

The British government proposed the foundation of the European Free Trade Association (EFTA), Sweden, Switzerland, Norway, Denmark, Austria and Portugal joined to that new organization. However, it was the clear alternative to the surrender of sovereignty in creating a political integration for Europe.

Charles André Joseph Marie de Gaulle
(1890 – 1970)
Leader of Free France (1940–44)
Head of the Provisional Government (1944–46)
Founder & President Fifth Republic (1958-1969)

At first the EEC witnessed strong economic growth during the sixties that exceeded both the United States and Great Britain. Of course, coming back from zero always produces the higher growth rate as was the case in China post–1989. This placed some political pressure upon Britain and by August of 1961 the British Prime Minister requested the beginning of negotiations on joining the EEC.

After beginning negotiations, Charles de Gaulle of France vetoed British, joining the EEC in 1963. Charles de Gaulle was intent upon building up a Europe as a superpower to match the USA and the USSR. Charles de Gaulle was suspicious of the Britain's close ties with Washington and began to assault the Bretton Woods system. Charles de Gaulle was taking dollars and demanding gold from the USA in an effort to raise France to a new world power. Charles de Gaulle's actions led to the first crack in Bretton Woods. He was the leading cause of pushing the price of silver higher that compeled its removal from coins in 1965. By 1968, the economic tensions created by de Gaulle's nationalistic policy for France forced the two–tier system of gold where the Bretton Woods system maintained $35 per ounce and gold was allowed to trade freely in London in the private market.

It was de Gaulle's nationalism that brought about the empty chair crisis in 1966, where it became clear that it was now France against the EEC Commission. When France took on the Presidency and the Commission became marginalized as the debate became one between France and the other members. On June 30th, 1965 Paris recalled its representative in Brussels stating it would not take its seat in the Council until it had its way. This became known as the "empty chair crisis." That was the first time the operation of the EEC had failed because of a member state. This further exposed the failure of the structure of the Council. France kept EEC paralyzed for seven months and finally concluded with the Commitment of Luxemburg, where France resumed its place in the Council in return for keeping the unanimity vote when major interests were at stake.

In 1967, the British Labour prime minister, Harold Wilson, once again requested to join the EEC, and de Gaulle once again banned the accession of Britain. It was clear that de Gaulle was more of a right-wing nationalist and was not trying to create a federalized political entity for Europe. He was very much more akin to Marine Le Pen of France today. In de Gaulle's ojectives, the national independence of France was paramount and he sought to maintain in a role of power equal to Russia and the United States. This was not negotiable in his mind.


QUAND ENTRERA À L'EXPO le 25 millionième visiteur?

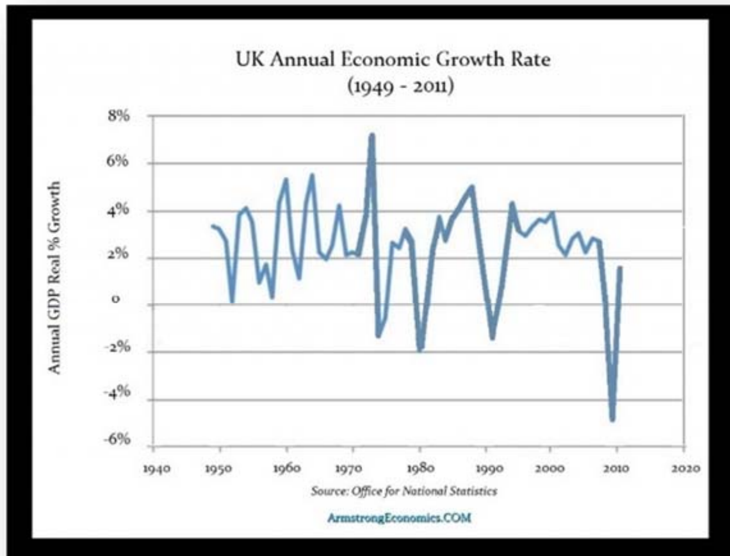
le journal de montréal

VIVE LE QUEBEC LIBRE! s'écrie de Gaulle

The nationalistic policies of Charles de Gaulle reared up again in 1967, this time in Canada where he delivered a controversial phrase in a speech on July 24th, 1967 during an official visit to Canada under the pretext of attending Expo 67 in Montreal, Quebec. He addressed a large crowd from a balcony at Montreal City Hall saying "Vive Montréal; Vive le Québec !" ("Long live Montreal, Long live Quebec!") and then added, followed by loud applause, "Vive le

Québec libre !" ("Long live free Quebec!") with particular emphasis on the word 'libre'.

It was only with the resignation of Charles de Gaulle in 1969, when the possibility of the British joining the EU surfaced. Nevertheless, the British people were not so eager to join the EU. The politicians once again had to overcome the opposition that wanted to maintain an anti-European stance. Negotiations finally came to an end in 1972. It was on January 1st, 1973 when eventually the United Kingdom joined the EEC. Denmark and Ireland accompanied it.



The BREXIT referendum begged the questions of sovereignty, regulation, taxes, trade, economic growth and immigration. The popular argument to remain in the EU was the claim that the economy will decline because of a lack of trade. That implies the Britsih economy has benefited from being in the EU, which was by no means true. Contrary to popular political propaganda, economic growth in Britain peaked after joining the EU and has declined ever since using the government's own data. We can see here in this chart that the argument for trade and economic growth is completely false propaganda.

What about regulation? On that front, Britain had objected to 72 legislative acts imposed by the EU. It had lost every single one. The EU just passed new tax IDs for every citizen within the EU. They will also prohibit competition in corporate taxes to prevent one member from luring others to come to offset local unemployment. Regulation was a huge issue that was never discussed by the politicians trying to stay in the EU. Yet post-BREXIT, McDonald's Corp. announced plans to switch its non-U.S. tax base to the U.K., abandoning Luxembourg where its fiscal arrangements are under attack from European Union regulators. The EU has banned states competing with corporate tax rates and sought to impose the highest tax rate within the EU to everyone. The European Commission made a decision that Apple should pay €13 billion of corporate income taxes (plus interest) to Ireland as reimbursement for what it labelled an illegal state aid. In other words, any member state that cut a lower tax rate within the EU must pay the highest tax rate retroactively. This has demonstrated that regulation in the EU is insane and exiting the EU is the only option to saving the British economy.

Add to these issues immigration that threatens the very security and culture of Britain and the chaos surfaced in the mind of the average person. Of course, anyone who argued against allowing the Syrian refugees into Britain were called "racist" – always a popular label to throw around loosely since Muslim is not a race but a religion. For over 300 years, it was illegal for a British monarch to even marry a Catholic. Nobody called that "racism" did they?

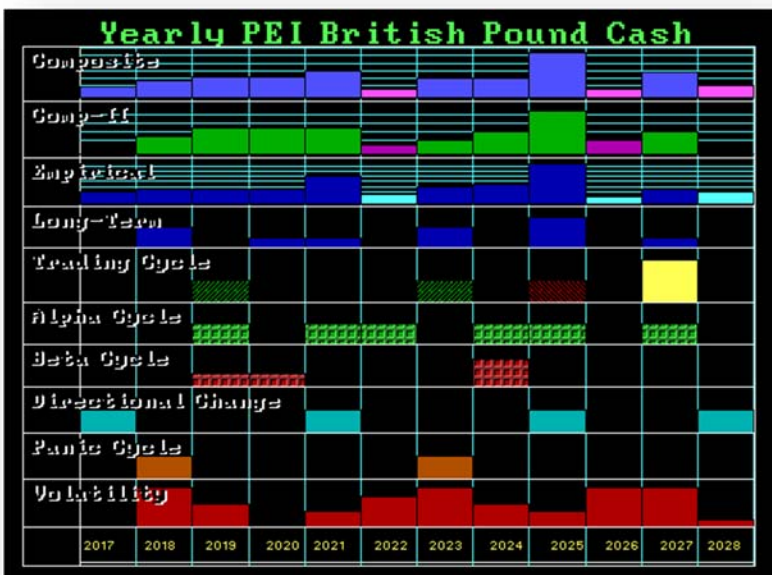
There is actually no argument to support Britain remaining within the EU economically. Its future would decline with the EU which is rapidly becoming the most Byzantine system burdened with regulation that has produced the lowest economic growth of any developed region in the world compared to Asia and America.

Since David Cameron was forced to resign being on the wrong side of **BREXIT**, the new British Prime Minister, Theresa May, promised she would deliver a full exit from the European Union. She did say that the government's plans to begin a two-year divorce, but when the British court ruled that parliament must be consulted on the decision before starting the two-year exit plan to invoke Article 50, the exit strategy was put in disarray.

In the case of the British pound, it will still decline and while the oponents of **BREXIT** will say see – we told you, in truth, a lower pound will help the domestic economy by lowering the cost of exports and sparking currency inflation with respect to imports. Even its oil exports, denominated in dollars, will increase domestic revenue.

However, the pound did elect two sell signals at year-end. These were the Yearly Bearish Reversals at 14615 and 14050. These will now provide the major overhead resistance during any future rally. Yet, resistance will now be 12700 for the year 2017.

The major support during 2017 begins at 115 and a breach of that level could set off a decline to 107. A break of the 1985 low in cash at 10520 could actually result in a drop to the 80 level. From a timing perspective, a low is possible in 2017/2018. However, we may see this trend actually continue into a major high for the dollar come 2021.



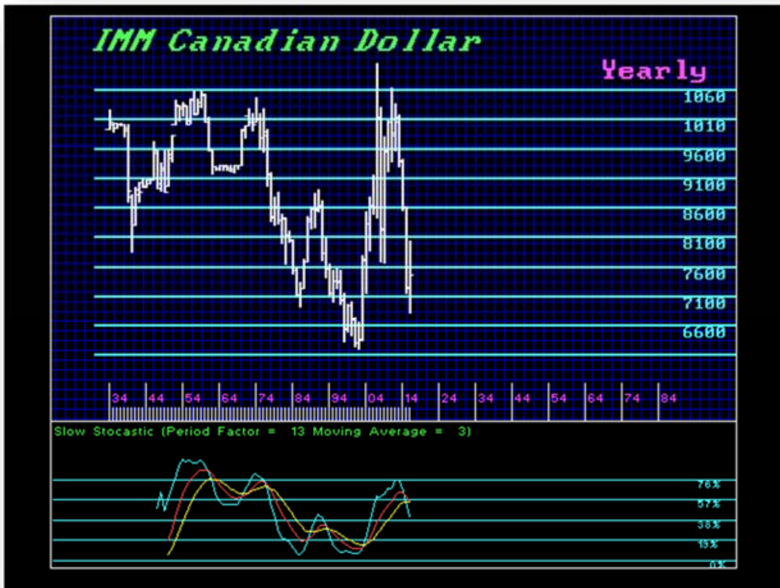
The lower the pound, the better it would be for exports and and even a 10% tariff to sell into the EU would be significantly less than where the pound was before the **BREXIT** it was 150. Trade would still be beneficial. Meanwhile, the share market FTSE made an outside reversal to the upside signally that new highs are in motion that are compensating for the decline in the British pound since everything has an international value.

Canada

The Canadian housing slowdown was largely attributed to activity in Vancouver, where sales peaked earlier in 2016 before seeing dramatic drops in subsequent months in anticipation of the British Columbia slapping a 15% property transfer tax on foreign buyers. While most were looking for a Vancouver home price to fall of a neat 10% even, the market fell exceeding those expectations, dropping nearly twice that much to about 20%. The continued decline into 2017 will probably see another 15% drop as China attempts to stem the outflow of capital. Its clampdown on Bitcoin, where 98% of the activity has been from China, will have its impact in the Vancouver market.

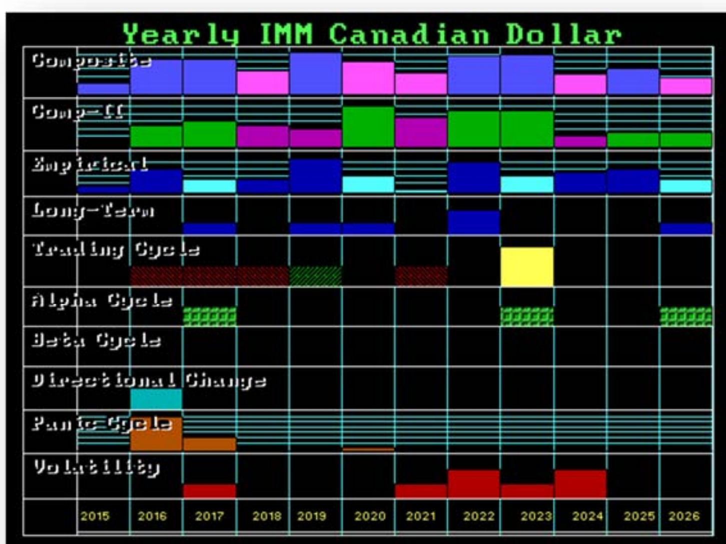
The Canadian dollar had rallied from .6809 on the Futures peaking at .8025 during May, and it began to fall rather steadily thereafter. British Columbia introduced a new 15% property transfer tax on foreign real estate buyers in Vancouver in July 2016 taking effect on August 2nd. The new measures were intended to increase the affordability in the city's red-hot housing market for Canadians while driving up costs for foreign investors, mostly from mainland China.

The Canadian dollar rallied against the US dollar sharply for 5 years peaking in 2007 at $1.10430 on the futures (cash at .906) against the US$ from the 2002 low



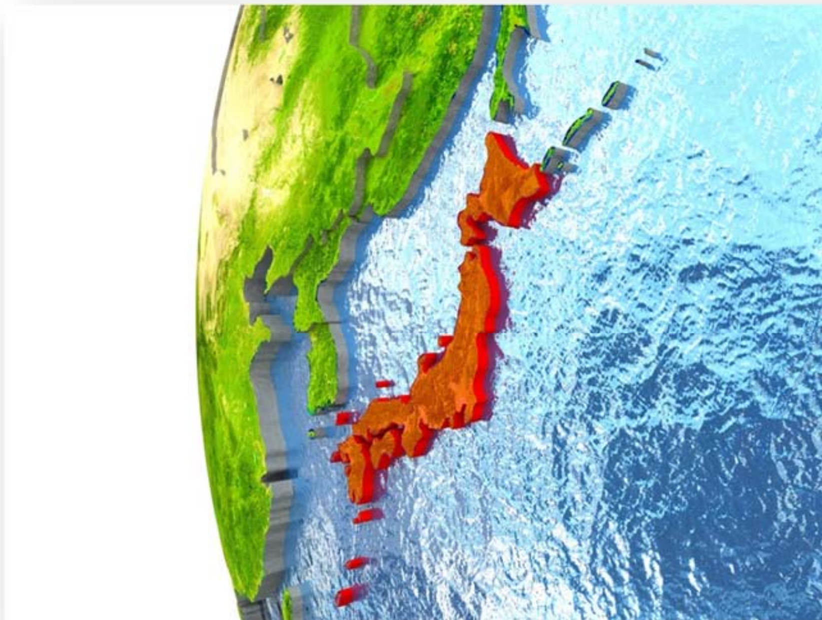
against the US$ at .6170 on the futures (cash $1.6186). The actual lowest closing for the greenback against the C$ came in 2012 at .9924 on the cash, which was an 11 year rally for the C$ given the highest closing for the greenback was $1.5728 in 2001. However, in the futures, the highest annual closing was also in 2007 at $1.00990. The $C obviously peaked with the gold price in 2012 in cash but in futures it peaked with the share markets in 2007.

The Annual Array in the C$ futures showed that 2016 should have been a Panic Cycle year and we did elect one Yearly Bearish from the 2007 high on the close of 2015 warning that this was most likely a major long-term high. The next Yearly Bearish Reversal was 71350 in futures and 2015 produced the lowest annual closing at 72330 with the intraday low holding that Yearly Bearish Reversal reaching 71430. Thus, while 2016 did penetrate that level falling to 68090, it rallied back to close higher at 74415. Therefore, the C$ was entitled to a bounce, which it did in 2016.



Only a monthly closing above 8836 on the futures would see the $C rise into 2017. Resistance in 2017 stands at 8530-8550 with support forming at 7135. The Quarterly Bullish Reversal stands at 8605 and a Quarterly Bearish now rests at 7425.

Japan



Japanese economic growth is projected to reach 1.0% in 2017 before slowing to 0.8% in 2018 according to most forecasts. However, with three supplementary budgets during 2016, the Japanese economy is in a fiscal consolidation mode. The Bank of Japan (BoJ) is trying to cope with the impact of the yen appreciation and rising interest rates in the 10–year JGB. Nonetheless, the BoJ will maintain monetary easing, as intended, until inflation is stable above the 2% target, while taking account of costs and risks in terms of possible financial distortions.

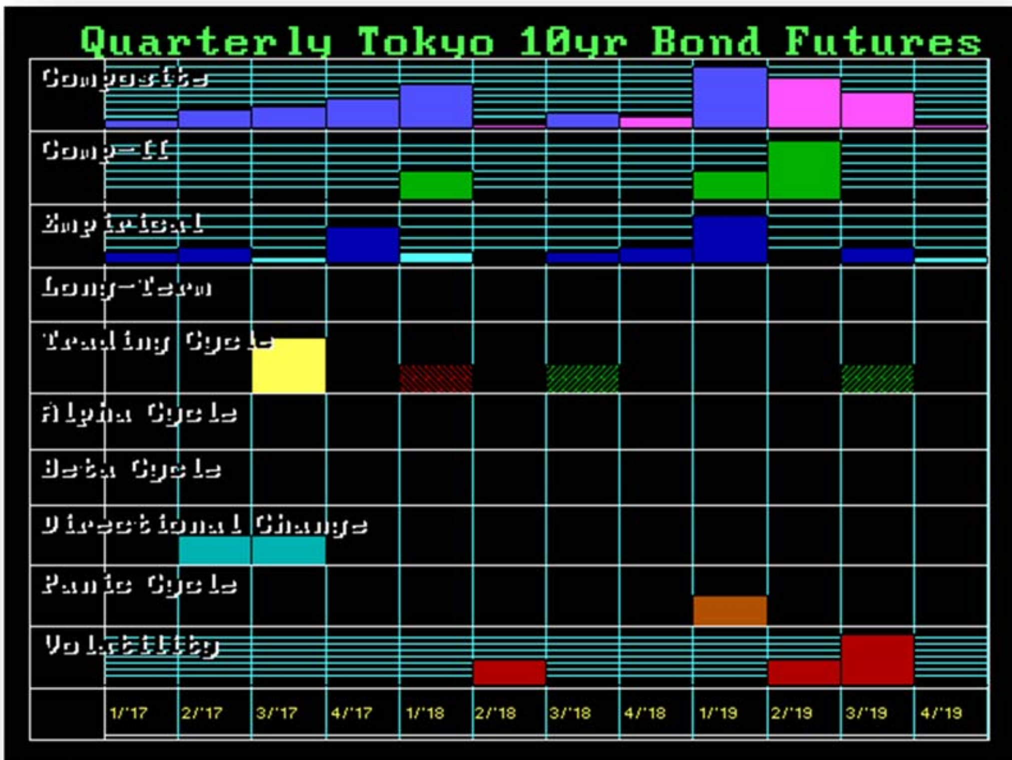
The BoJ bought 9.4 trillion yen (book value) of JGBs during December 2016, down from 10 trillion in November 2016. Nonetheless, the average maturity of JGB purchased in December increased from 7.8 years to 8.5 years demonstrating that there is a serious problem here and the economy is really not absorbing the debt. The BoJ is currently aiming to lengthen the duration of JGB holding further despite its policy statement back in April 2013 when it pledged that it will target to purchase JGBs with 7 years remaining maturity on average. The BoJ does not officially publish the duration related statistics on their JGB holding or of its monthly purchase.

Consequently, the BoJ's market share in the JGB market has been renewed when the market crashed in July, collapsing from 15400 to 15066 the following week. In December 2016, the BoJ owned 41.3% of the entire JGB market as measured in value terms. If we measure this in the aggregate duration risk, this is still a shocking 36.8% compared to the US Federal Reserve holdings of US government debt is only 20%. After its September decision, the BoJ is no longer committed to a particular quantitative target. The scope the BoJ purchases of JGBs was expected to gradually shrink. Curiously, the true direction of the BoJ purchases are now uncertain as they must also restrain the yield curve from steepening in order to keep the 10-year yield at 0%. They have not yet concluded that zero to negative interest rates have completely failed to be effective.

Nonetheless, the average duration of the BoJ's JGB holding had been declining between 2011 to early 2013 until the new BoJ Governor Haruhiko Kuroda came to power and introduced Quantitative and Qualitative Monetary Easing in April

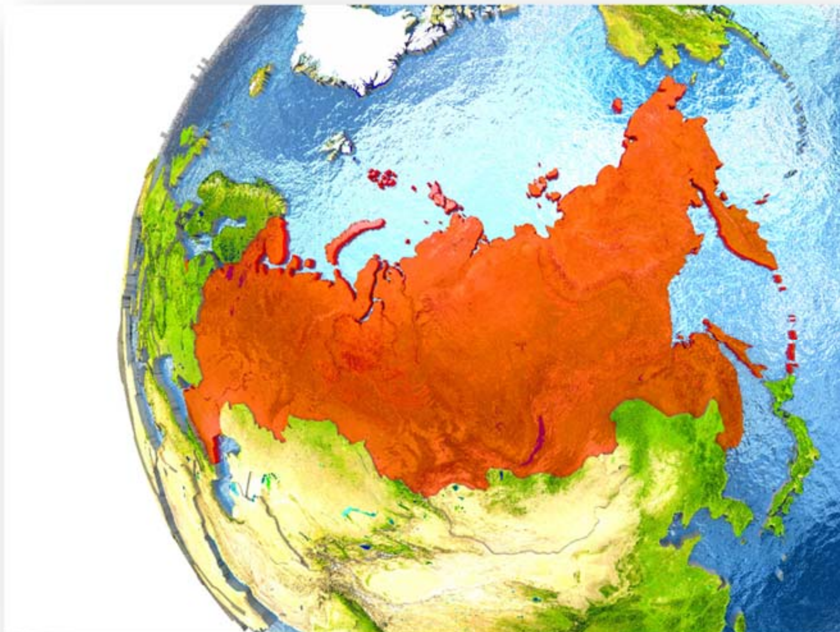
2013. These policies have simply not helped restore economic growth nor allowed inflation to reach even 2% as their target goal.

Japan actually has a relatively high poverty rate among its people despite the shortage in labor. Its public debt will reach 230% of GDP by 2018. It is likely that Japan will begin to gradually increase in the consumption tax rate, which will further dampen consumer demand. Public social spending already accounts for more than half of government expenditures.



The quarterly closing at the end of 2016 was a technical sell signal. Now a quarterly closing below 14615 will signal a sharp collapse into 2018 most likely looking at the first quarter 2018 for a turning point. On the monthly level, we did elect the first Monthly Bearish Reversal so the next critical support lies at 14900. A monthly closing below 14440 will confirm that a bear market lies ahead.

Russia



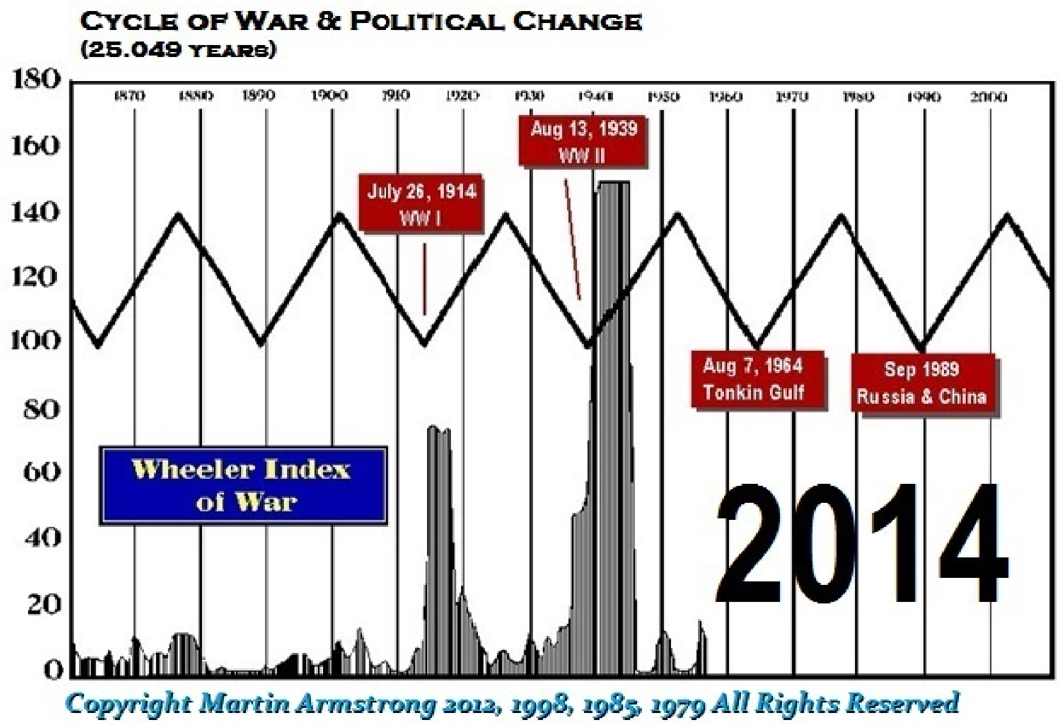
The Russian relations with the Obama Administration are just amazing for Obama has gone out of his way to destroy all working relations with Putin. I have never seen any American President act so rashly and against the entire objective of bringing about world peace. This was certainly demonstrating that giving the Nobel Peace Prize so quick entering office was not for anything he did, but for simply being black. His actions ever since have been one of absolute confrontation with Russia. Imposing sanctions even with his last days in office, were designed to push Trump into a corner so he would have to maintain the Obama policy of isolating China and Russia in a new cold war without any rational sense.

Nevertheless, after two years of recession, the Russia economy will return to growth in 2017 albeit moderate. Higher real wages have given a boost to private consumption and lower interest rates have helped to support investment. However, the strength of the recovery will also remain highly dependent upon the rebound of oil prices. Yet keep in mind that oil is priced in dollars and as such, a rising dollar is actually very good for Russia's income.

Tight monetary policy in Russia did succeed in bringing down inflation, but this has been a global trend of deflation which has influenced even Russia. Fiscal policy has been accommodative during the recession while fiscal consolidation plans remain targeting reducing the deficit by about 1% of GDP per year on average going into 2018.

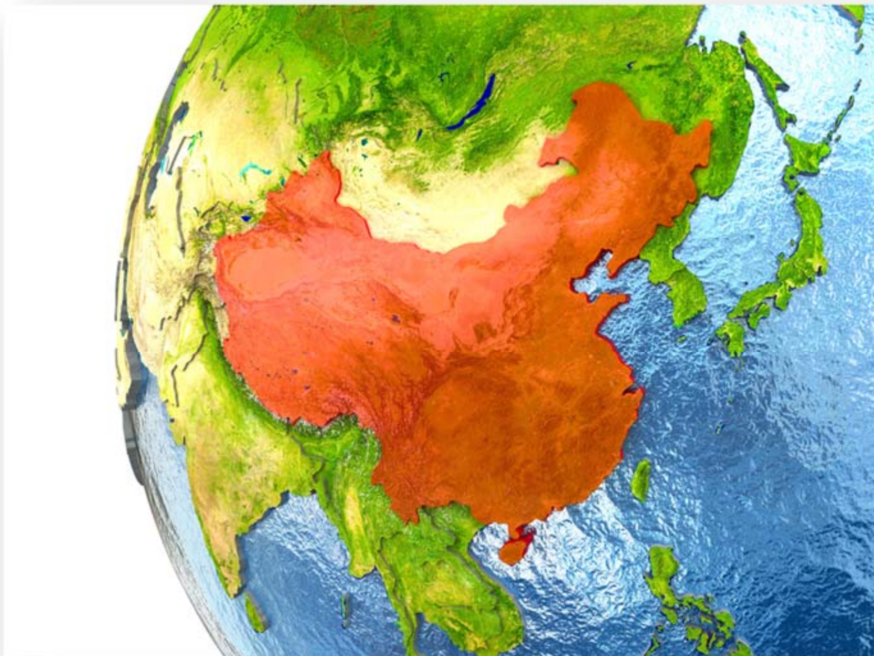
Oil revenues can no longer be counted on to support the Russian economy. Nevertheless, at the close of 2016, Crude did elect two Yearly Bullish Reversals implying that the low for oil is in place at least temporarily and two Monthly Bullish Reversals. The key resistance during 2017 stands at 7730 in crude oil. The key will really be the Quarterly Bullish Reversal standing at 6258. We need to see that elected to secure a broader term rally in crude oil. We do have to be careful that crude could stall–out here in early 2017 unless we achieve a quarterly closing above 6258.

On the currency side, while the dollar has made a major high during January 2016 and decline thereafter, we have not elected any Monthly Bearish Reversals in the dollar against the ruble. What is rather incredible, is the fact that our annual Timing Array forecast Panic Cycles beginning in 2015 and peaking in 2016, but remaining into 2022. The year 2014 was a Directional Change as well. It was 2014 when Viktor Yanukovych, the Ukrainian president, was overthrown in February 2014. Crimea was then annexed by Russia on March 18th, 2014 after it had been given to Ukraine by Russia in 1954. It had been Russian territory originally and was a strategic seaport for its military operations.



On March 6th, 2014, President Obama signed Executive Order 13660 that authorized the first sanctions on Russia for violating the sovereignty and territorial integrity of Ukraine. The War Cycle turned up in 2014 and tensions began to rise right on target. It was 2014 when the dollar rose sharply against the ruble breaking out to the upside. Major support for the dollar remains at the 526020 level. Clearly, the sanctions have done nothing but resurrect the cold war. Russia will never surrender Crimea so what is the point?

China



There has been much political infighting in China that may come to a head in 2017 between a rising nationalist drive, which is a global trend i.e. Trump, **BREXIT**, Italy and Le Pen, and an economic reform with open markets. This internal contest may come to a head at the October Communist Party Congress. This is the meeting of 350 members of the Central Committee with the 25-member Politburo and its 7-member Standing Committee called the "inner sanctum".

Xi Jinping (习近平)
(born June 15, 1953)

The political crisis in China centers on this internal movement of nationalism against Xi who has argued to allow market forces to dictate the trend. If he had his way, he would interject competition to state-owned enterprises cutting off their easy credit which has contributed to debt-driven growth.

It has been this nationalistic confrontation that is responsible for much of the capital flight from China using Bitcoin. The rally in bitcoin was driven by the capital flight from China, which has accounted for 98% of bitcoin trading in the past six months. China is also home to about two-thirds of the world's bitcoin mining power. The Chinese have been buying bitcoin onshore, selling it offshore for another currency, and then moving the money to a bank account. This is how the Chinese individuals can take cash out of the country, circumventing all regulation.

The Chinese government has been strengthening requirements for citizens by converting their yuan. With Trump coming into office, China fears that lower values for the yuan will become a trade war even if the government is not actively trying to depreciate the yuan for trade. Conversions of yuan are already subject to a quota or currency controls in an effort to curb capital outflows.

Bitcoin has been the escape method for capital fleeing China. China's major bitcoin exchanges halted or otherwise updated their bitcoin trading services. The changes to Bitcoin are being made in response to interactions with the People's Bank of China. The People's Bank of China delivered an "informal guidance" that is beginning to take notice of the capital flight through Bitcoin exchanges. The central bank called in the big exchanges for a discussion.

Bitcoin is not being shut-down, but there is concern that the capital flight must be stopped. BTCC is the only exchange to explain the changes in a message posted to its website.

> ***"BTCC will [suspend loans and borrowing services] from 12th January, 2017."***

Effectively, loan-based trading services were no longer available using Bitcoin. The news spread quickly about the changes on social media. Margin trading services had always been in the grey area given the longstanding lack of legal clarity that allowed the exchanges to blossom. The additional liquidity for Bitcoin that came from China will begin to decline. There is little doubt that the Chinese Bitcoin market would see much more activity of regulators moving forward.

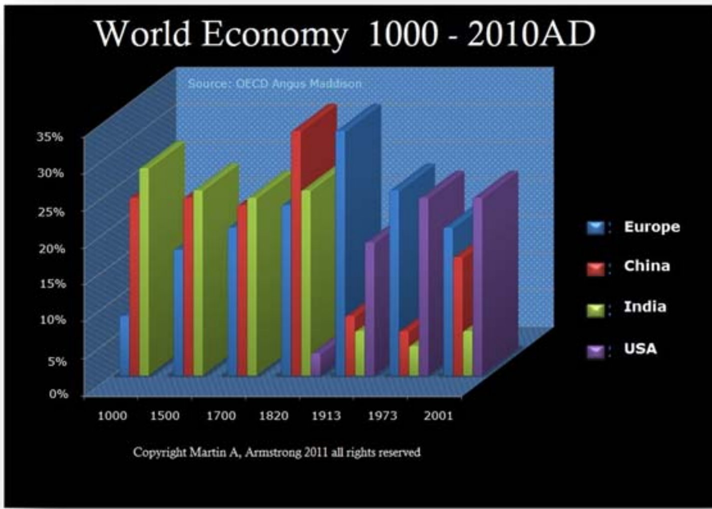
With the looming trade war on the horizon, the Chinese government will have absolutely **NO CHOICE** but to come in and regulate Bitcoin as its citizens now account for 98% of all trading. From a regulatory perspective, the days of passive treatment of Bitcoin may come to an end. Bitcoin has soared only because it has been the mechanism to obtain foreign exchange and take capital out of China. This could easily be considered an illegal operation, such as money laundering, to justify closing that window.

The Chinese yuan has clearly shown that its rise ended in 2014. The dollar has been rising ever since as capital pours out of China. Furthermore, the dollar has elected two Yearly Bullish Reversals at the close of 2016. We now have technical overhead resistance at the 775 level. The outpouring of capital through Bitcoin has obviously contributed to the rise in the dollar.

President of China Xi Jinping made a statement last year that has sparked a number of comments over the past few months. Xi Jinping said:

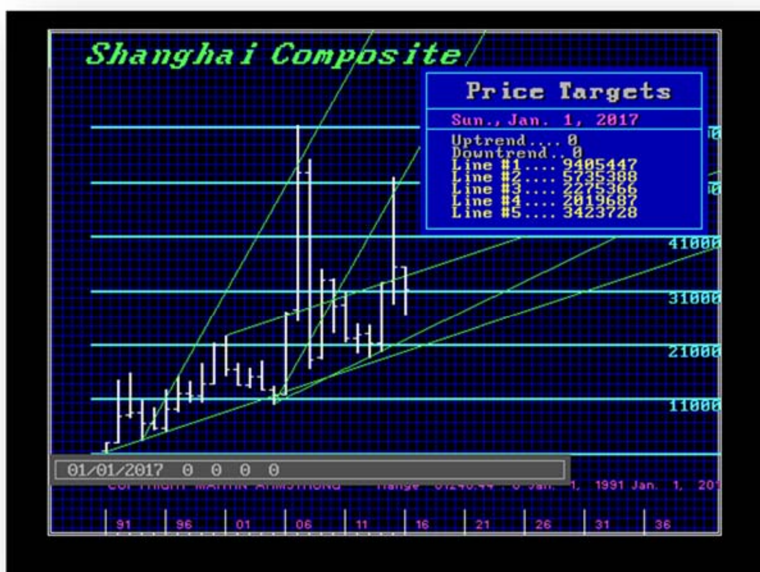
> ***"The world is on the verge of radical change. We see that the European Union is gradually falling apart, how the US economy is crashing, and that all this will end with a new rearrangement of the world. In 10 years, we can expect a new world order in which the key factor will be the alliance between China and Russia."***

China is technically under the Communist Party, but it is by no means communist. Private industry and personal wealth has exploded. They may not have changed the party name, but the foundation of China is capitalist — not communist.



Our famous **Economic Confidence Model** does support the statement of Xi and the turning point of 2032 that shows the financial capital of the world moving to Asia is up to anyone's interpretation. Nevertheless, cycles are part of their core beliefs whereas in Western society we are trapped in Marxist thinking of a linear system. In this case, the internal battle within China between the nationalistic and open market reform segments remains. Xi has accumulated more power than former leaders, yet this authority tends to be high concentrated. Those on the Central Committee were picked by his predecessor not him. Even among the 31 provinces, only a tiny fraction are operated by his allies. The best thing he has going for him is the mandatory retirement age of 65. This will result in 92 slots having to be filled during 2017.

The Shanghai share market did not elect any Yearly Bearish Reversals at the end of 2016. We still see that 2017 could provide a low with a Directional Change and then begin a rally thereafter into 2020. Resistance during 2017 will be 3240000 and support lies at 2475000 on our system models. Technical support lies at 2275366 level with resistance at 3423728.



Mexico

Mexico has come into focus with Trump promising to build a wall. While he has taken a lot of criticism about that, London has been looking at building a wall around the city to protect against terrorists and Obama was quick to build a wall around his new home in Washington, DC. Walls have been constructed for centuries to keep invaders out. The first such was known as The Gates of Alexander and was a legendary barrier supposedly built by Alexander the Great in the Caucasus to keep the uncivilized barbarians of the north from invading the land to the south – most likely Mongols. The wall was also known as the Caspian Gates with two locations one being the Pass of Derbent, in Russia and the Pass of Dariel, and

Gates of Alexander - Derbent, Russia

Hadrian's Wall

tradition associates this with the Great Wall of Gorgan, also called the Red Snake. This dates to the end of the 5th or the beginning of the 6th century BC.

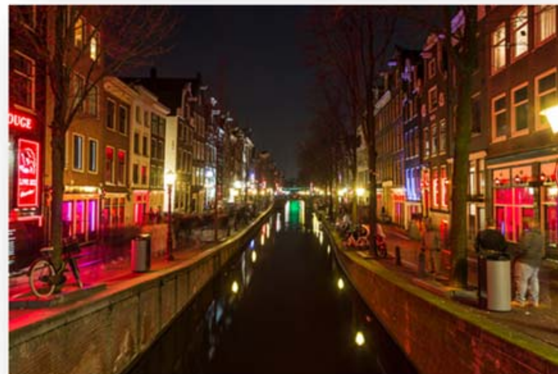
There was Hadrian's Wall separating England from Scotland. The Romans could not conquer the Scots and just gave up building a wall to keep them out.

As the barbarian invasions during the 3rd century AD made it all the way into the Roman Empire, Emperor Aurelian (270–275AD) built a wall around Rome itself. Security has always been the primary motive. Indeed, let us not forget the Great Wall of China constructed by the first Emperor 220–206BC. His tomb, near the Wall, was filled with the famous terracotta soldiers.

Great Wall of China 220–206 BC
Constructed by the first Emperor of China Qin Shi Huang

Consequently, walls are not so uncommon and have been constructed over the centuries to keep people out. There was also the Berlin Wall, but that seemed to be a barrier meant to keep people in rather than others out. Most of the complaints about the Mexicans are not that they are sponging off the US welfare systems, but that do not pay taxes. Mexicans have some of the best work ethics and family values. They are by no means deadbeats. However, only citizens pay income taxes yet citizenship is not required for schools or hospitals. Hence, anyone without health insurance was covered under Medicaid and have contributed to creating Obamacare.

If the United States abandoned income taxes, then it would be an even playing field for Americans and illegal immigrants. Secondly, legalize drugs. You can go to Amsterdam and see that it would by no means destroy the city. Making drugs illegal further the trade by creating crime for whatever is made is then tax free. This would end the violence that kills so many people both in the United States and in Mexico. The drug trade south of the border only destabilized governments and there is no way to eradicate the drug trade.



The USA clamped down on what was called the pill-mills handing out prescriptions and/or dispensed narcotics without a legitimate medical purpose. This ended the OxyContin (oxycodone) trade, an opioid pain medication, but did not end the abuse. All they did was increase the traffic in heroine and the number of people dying from that more potent drug. Heroin deaths nearly quadrupled as a result of shutting down the pill-mills. Laws will never eliminate drugs any more than prostitution. The Red-Light district in Amsterdam is safe and a huge tourist attraction. It is far better to legal such things and then properly secure safety.

Mexico has been torn apart by the drug trade. By the end of Felipe Calderón's administration (2006–12), the official death toll of the Mexican Drug War was at least 60,000. Estimates set the death toll above 120,000 killed by 2013, not including 27,000 missing. Outlawing liquor during Prohibition led to violence and gave birth to the Mafia. Once they had a tax-free trade, the Mafia exploded and then expanded into other areas. Violence became commonplace. This is the very same problem we have with drugs. How many people not connected to drugs must die in the crossfire?

**Saint Valentine's Day Massacre
February 14, 1929**

Following the start of the production of newly discovered oil reserves in 1979, the economic policy of Mexico changed. The IMF program was dropped and a more expansionary fiscal policy was implemented. Then, between 1978 and 1981, real GDP growth varied between 8.0 and 9.1% but the inflation rate accelerated above 20%. With the second OPEC oil price shock in 1979, oil prices skyrocketed bringing in significant revenue for Mexico as oil exporter. However, the subsequent worldwide recession and Paul Volcker raising interest rates to absurd levels into March 1981, Mexico saw its net exports decline.

The Volker increase in US interest rates was the Federal Reserve's policy to curb the oil-based inflation of the 1970s. This only caused the US dollar exchange rates to soar with the dollar eventually peaking in 1985. With Mexico's debt denominated in dollars, the net result was a dramatic rise in the cost of servicing public debt. Making matters even worse, lenders to Mexico mostly lent only on variable interest rates. About three-quarters of interest payments were tied to variable interest rates causing the debt service payments to explode. In 1981, LIBOR peaked at 16.7% on average, before lowering to 13.6% in 1982. This was the peak in the Volcker interest rate experiment.

In 1982, the government began with a two-year breather from large scale debt service payments, which was granted by US commercial banks with little choice. Then on December 10th, 1982, an agreement was reached with the commercial banks to reschedule US$23bn of capital payments on the public-sector debt coming due between August 23rd, 1982 and December 31st, 1984.

During this very same period, a wide-ranging economic stabilization program was agreed with the IMF. The program also included structural reforms. At the time of the Mexican default, debt often exceeded the capital base of many of the international banks. Therefore, many feared that the banking system would collapse. All of this was caused by Volcker's insane attempt to stop inflation with jacking up interest rates to insane levels. In the face of collapsing economic growth rates and rising inflation in Mexico due to the collapse in public confidence, Treasury secretary James Baker put forth the "Baker plan" which was implemented in 1982. Baker, in return for economic reforms, high-debt countries would get new access to medium-term new loans, in addition to rolling over of amortization of old loans. New loans had to come both from commercial creditors and the official lending institutions. In June 1983, the "Paris Club", representing creditor governments, rescheduled Mexico's sovereign debt owed to major creditor countries. The Paris Club dates back to 1956 when Argentina agreed to meet its public creditors in Paris.

The Paris Club provided financial services such as debt restructuring and debt relief. With access to capital markets restored, it was hoped that the economic reforms would allow the debtors to grow out of debt. As always, nobody addressed the problem to begin with. The capital outflows went up rather than down resulting in skyrocketing inflation. Investment collapsed between 1982 and 1988 with no economic growth whatsoever in Mexico. As a result, external debt rose to 78% of GDP in 1987, marking the complete failure of the **"Baker Plan"**. It was James Baker who organized the Plaza Accord creating the Group of 5 (G5 now G20) positioned to force the US dollar down from its highs in 1985. That only set in motion dramatic volatility in international capital flows creating the 1987 Stock Market Crash and the massive capital contraction from Japan that created the Japanese bubble in 1989.

September 22nd, 1985 - Plaza Accord

From left: Gerhard Stoltenberg of West Germany, Pierre Bérégovoy of France, James A. Baker III of the United States, Nigel Lawson of Britain and Noboru Takeshita of Japan.

The attempts to manage the economy between Volcker and Baker created tremendous economic problems. Then in September 1989, the **"Brady plan"** was agreed, legitimizing the concept of debt relief, for it was assumed that US banks could absorb the losses of defaulting Latin American debt. The **"Brady Plan"** was to make debt relief acceptable to commercial bank creditors by offering a smaller but much safer payment stream in exchange for the original claim that clearly could not be serviced thanks to the Volcker-Baker manipulations. The Mexican government and the commercial bank creditors reached an agreement on a financing package covering the period 1989-1992. This resulted in a restructuring of about US$49.8bn of Mexico's external long-term debt, which amounts to about 50% of all debt.

The **"Brady Plan"** offered the banks three options. They could exchange old loans for new bonds at a discount of 35% keeping interest rates at market levels, or they could exchange old debt for face-value called Brady Bonds at par valued with fixed interest rates of 6.25%. A third option would be that Banks could provide additional loans over the subsequent three years' equivalent to 25% of the outstanding bonds, meaning no debt relief and just pouring new money into the pot to service old debt. Almost 50% of the banks took the Brady Bond option at par with the reduced interest rate. About 40% chose to reduce the principle while about 13% chose to pour in more money. In the end, the **"Brady plan"** worked and Mexico's ability to service its debt was restored by reducing the outrageous interest expenditures and principal payments that had been imposed upon it because of the Volcker insanity of raising interest rates to fight inflation going into 1981.

In December 1982, Mexico began fiscal austerity imposed upon it by the IMF and began the privatization of state-owned companies. Reductions in trade barriers, industrial deregulation, and foreign investment liberalization. Mexico engaged in significant trade reform setting the stage for **NAFTA** in 1994. Additionally, the tax system was reformed which encouraged capital inflows and raising sanctions for tax evasion while initiating financial market liberalization. Then in 1991, Mexico began to privatize the commercial banks, which were nationalized in 1982, but it still lacked banking supervision. This most likely led to what began known as the **Tequila crisis** in 1994 when the peso was devalued overnight. The Mexican peso crisis was a currency crisis that took place in December 1994, which became an international financial crisis ignited by capital flight similar to the 1987 Crash set off by the G5 and James Baker who publicly wanted the dollar devalued by 40% sending off a capital flight to the Japanese yen.

The **North American Free Trade Agreement**, or **NAFTA**, is a three-country accord negotiated by the governments of Canada, Mexico, and the United States that entered into force in January 1994. This led to extreme optimism for Mexico. Consequently, during the 1994 presidential election, the incumbent administration embarked on an expansionary fiscal and monetary policy expecting **NAFTA** to fill the coffers. The Mexican treasury began issuing short-term debt instruments denominated in domestic currency with a guaranteed repayment in U.S. dollars. This scheme attracted foreign investors who at first had confidence in Mexico due to **NAFTA**. However, all the new access to international capital following its signing of **NAFTA** created a short-lived capital flow boom. Like Greece joining the euro, at first investors rush in. Then reality starts to set in. The same was true regarding Mexico following **NAFTA**.

Politically, a violent uprising erupted in the state of Chiapas broke out for two weeks in January 1994. The Chiapas conflict refers to the 1994 Zapatista Uprising and its aftermath. This erupted with the general tensions between the indigenous peoples and subsistence farmers in the Mexican state of Chiapas. Then there was the assassination of the presidential candidate Luis Donaldo Colosio on March 23rd, 1994 about two months after signing NAFTA. These events began to hint at political instability.

Once upon a time, the peso was at par with the dollar. Most people do not realize that the Mexican 8 Reales silver coin was commonly known as the "pillar dollar" and cutting this up into pieces like a pie is what we hear in pirate moves – a piece of eight, meaning a piece of this coin. Here is a piece of eight stamped **"St Lucia"** for a Caribbean island.

These Pillar dollars or Spanish Dollars as they were known, were widely used by many countries as an international currency in modern times because of its uniformity. Spain was the financial capital of Europe until it began to default on its debt – seven times as a matter of fact. Spain became a serial defaulter beginning in 1557 followed by 1570, 1575, 1596, 1607, and 1647 ending in a 3rd world status. After 1647, in the year 1700 Charles II died with no heir. His will named the 16–year–old Philip, the grandson of Charles's sister Maria Theresa of Spain, as his successor to the whole Spanish Empire. Archduke Charles of Austria contended also for the throne and this led to the **War of the Spanish Succession** (1701–14), which became the first world war of modern times with theatres of war in Spain, Italy, Germany, Holland, and at sea.

Following the war, Archduke Charles was also proclaimed king of Spain, as Charles III, in opposition to Philip V. He was proclaimed in Vienna, and also in Madrid in the years 1706 and 1710. Charles renounced his claims to the Spanish throne in the Treaty of Rastatt of 1714, but was allowed the continued use of the styles of a Spanish monarch for his lifetime. Philip V ascended the Spanish throne but had to renounce his claim to the throne of France for himself and his descendants.

Under Charles II. We find 8 Reales silver dollars being minted in Mexico from 1667–1701. With his successor, Philip V that, we continue to see 8 Reales or dollars coins being minted in Mexico. These early issues of coins are known as the "cob" coinage, which were 27.07 grams in weight with a .931 fineness making the actual silver content .8103 ounces.

Mexico Colonial Felipe V (1729-1733)
8 Reales Silver (.916) – 27.07 g

***Philip V* (1700-1724)**

Spainish Fleet of 1715 Shipwreck Set

8, 4, 2, 1, Escudos Cob type

struck in Mexico 1714-32 all dated 1714

The amount of gold and silver really began to pour out of South America. The biggest silver discovery was in 1545 known as Potosí. The major Spanish Treasure Fleet disasters were 1622, 1715, 1733 and 1750, which was the worst of all.

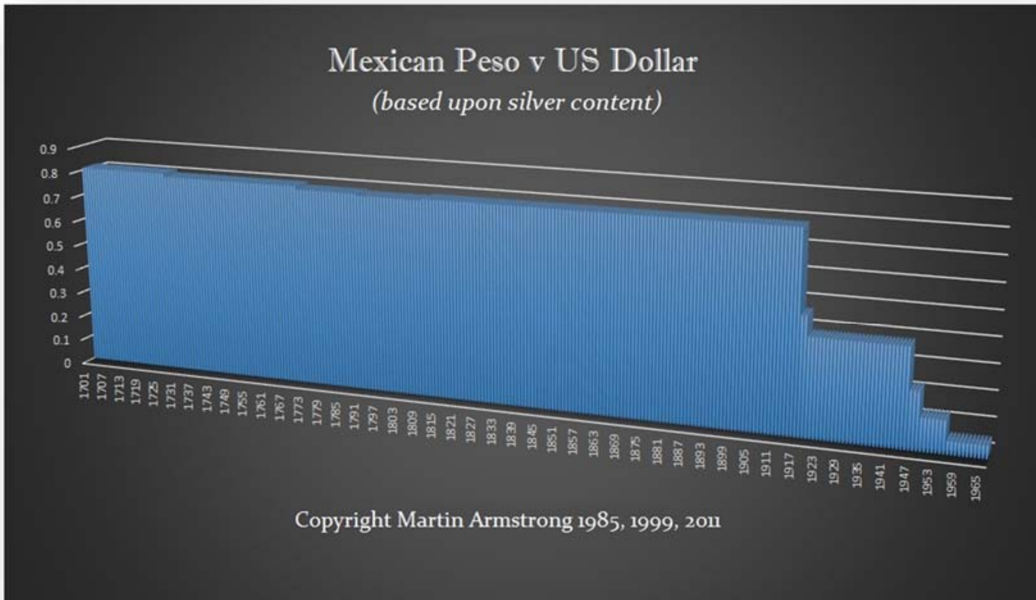
It wasn't until the coins were "milled" meaning struck by machines when we see the introduction of the Pillar Dollars or 8 Reales. It was at this time that the Spanish silver and gold coinage truly becomes the internationally respected currency.

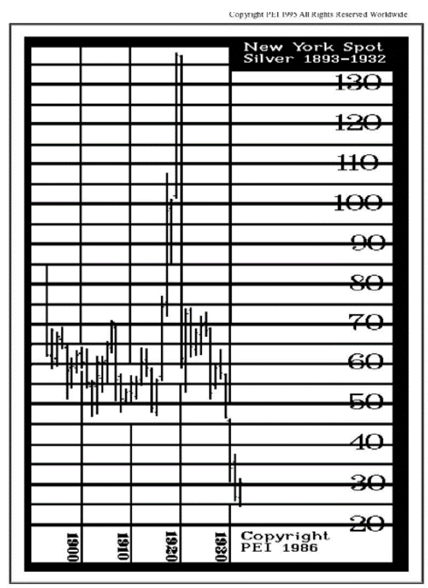
Some countries countersigned the Spanish dollar so it could be used as their local currency as did even Britain during the shortage of currency under George III. In fact, these Pillar/Spanish dollars were the coin upon which the originally constituted the United States "dollar" as they refused to adopt the British system of pounds. In fact, Pillar/Spanish dollars were actually considered to be legal tender in the United States up until the Coinage Act of 1857.

Spanish Dollars Counterstamped by George III as Emergency Issue

Spanish "*Pillar Dollar*" 1739
8 Reales

What most people have no idea about is in fact that the Mexican Peso (8 Reales ceased to be issued in 1897 replaced by the Peso) was on par with the dollar and in fact the US dollar was based upon the Peso. The debasement of the 8 Reales (Peso) began slightly in 1729 when it was reduced to .7972 of a Troy ounce down from .8102. It was debased slightly again in 1772 dropping to .7858 oz. followed by another slight debasement to .7797 in 1791.





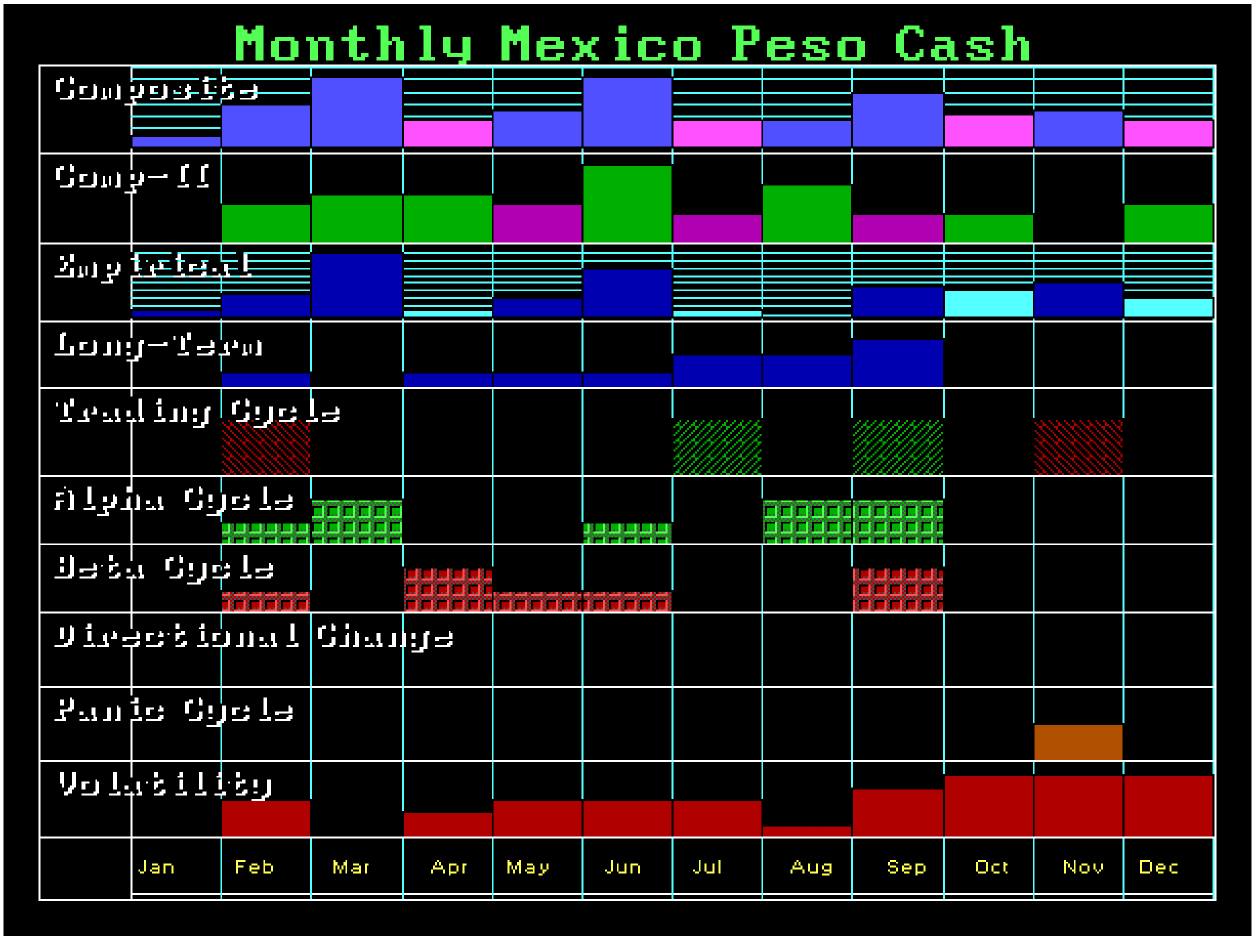
The Peso was restored back to the weight of .7859 oz. in 1811 where it remained until the 8 Reales was then called the Peso with the weight of .786 oz. The Peso returned to .7859 oz. in 1910, which lasted only until 1917.

As silver rose in value during the **Panic of 1919** and European demand rose trying to reestablish a monetary system, the Peso was sharply debased to .4663 oz. before it dropped further two years later in 1920 to .3857 oz. where it remained until the end of World War II. This was not unique to Mexico. The British also debased their silver coinage in 1920 from .925 to .500 where it remained thereafter. The United Stated stopped issuing silver dollars in 1904 and resumed in 1921. The small silver coins continued to be minted with no debasement in the USA in 1919 to 1921, but no dime, quarter or half dollars were minted in 1922.

In 1947, the Peso was debased to .2251 oz. and then the financial crisis of 1949, which saw the sharp collapse in the British pound, also impacted the Peso dropping further to .1286 oz. in 1950. The crisis hit again in 1957 and the Peso was debased further to .0514 oz. where it remained until 1967. The rising US dollar postwar was critical worldwide and Mexico was not exempt. That was the Recession of 1958, also known as the Eisenhower Recession, which lasted for 8 months but began in 1957. That led to a sharp worldwide economic downturn in 1958 aided by the Fed raising interest rates to try to fight postwar inflation. Then in 1967, silver vanished from the monetary system with the birth of the two-tier gold market in London during 1968.

The question, *when will Mexico recover from this political mismanagement*, appears to be due in 22 years – 2038. This is reflecting most likely the younger generation really taking charge. The war on drugs may also come to an end, which is fueling the corruption of governments south of the USA. It has been the drug trade that has been the most politically destabilizing factor of Mexico in the past few decades. If drugs can be legalized in the USA, you will see a tremendous recovery politically in Mexico and neighboring countries. With the death

toll above 120,000 killed by 2013, this far exceeds the number of people dead from drug use.



The US dollar has already exceeded the 2016 high intraday into 2017. As we look ahead into 2017, we can see that the volatility should begin to pick up in April, but it appears that after the summer, beginning in September, going into November should be the worse.

On an annual basis, there remains the risk that the US dollar will continue its advance into 2019. This of course will actually make it more difficult for Trump and his trade war. He obviously does not understand international trade. The stronger the dollar, the cheaper the imports. Tacking on tariffs will only cause inflation that the consumer must pay for.

South America

With the utter collapse of Venezuela with its socialist regime, perhaps South America is beginning to wake up to realize that socialism does not work, for economic growth is not created by politicians and central planning, but by the ingenuity of people responding to necessity. The leftist hegemony in South America has long kept this region down economically and the repetitive sovereign defaults over the centuries begs the question of how many times does a country have to default before people stop lending to them?

There is a rising trend of being against government emerging post 2015.75 in South America as well. The impeachment of the president of Brazil has exposed how corruption in South America is just way too much. We may see the leftist governments replaced now in Chile as well as Ecuador. Even in Columbia there is a chance that the army of the FARC may begin to disarm and transform into a political party.

The corruption in Brazil and the collapse of the left in Venezuela have been the major turning points. The Brazilian Senate in August 2016 impeached Dilma Rousseff, Brazil's first female president. Ms. Rousseff spoke after the vote to convict her on charges of manipulating the federal budget. The dollar peaked against Brazil in 2015. Dilma's successor, Michel Temer, is trying to get interest rates down to help with a recovery.

Meanwhile, Argentina's president Mauricio Macri (center-right) faces a mid-term congressional election in October. If he loses, look for more chaos. Whereas, the left-wing government in Chile under Michelle Bachelet has produced nothing but hardship. The November election is likely to swing center-right. The leftist president in Ecuador who has ruled for a decade will most likely lose in the February election also to a center-right government.

The crisis in Venezuela remains critical. There the leftist government appears ready to fight to the bitter-end and has rejected any recall or election that would change the government. As long as the military supports Nicolas Maduro, there remains little hope for Venezuela.

Global Table 2017

The following provides the Global Table on the yearly level for the major world markets. This will help to provide a guide as to where things finished for 2016 and looking ahead at what is to come. You will find the closing for 2016, the last trading price at the time of this report, resistance, support the BUY and SELL signals for annual closings, and the historical high and low for that market.

Market	Desciption		2016 Close	Current	Mk-Tone	Resistance	Support	--BUY--	-SELL--	High	Low
Currency --											
(*) = Dollar Trend											
US$	Index	Cash (*)	10239	10222	Bullish	10810	9030	10320	7890	16472	7070
Australia	Dollar	Cash (*)	13873	13707	Neutral	17810	13270	14260	7320	20964	6153
Australia	Dollar	Futures	7202	7492	Neutral	7818	7449	8340	5970	11005	4774
Brazil	Real	Cash (*)	3021	3099	Neutral	3227	3061	9542	3911	10226	2345
British	Pound	Cash	12321	12192	Neutral	15018	11841	19190	15018	21151	11841
British	Pound	Futures	12358	12200	Neutral	15009	12034	19183	15009	21138	12034
Canadian	Dollar	Cash (*)	13824	13127	Neutral	14001	12841	15032	11876	16186	9060
Canadian	Dollar	Futures	74415	76260	Neutral	80250	71350	84270	66400	110430	6170
China	Yuan	Cash (*)	69429	68984	Neutral	69630	64528	84662	37314	87409	31935
Denmark	Krone	Cash (*)	68663	69886	Neutral	71345	66975	89350	60458	123725	4653
Euro		Cash (*)	10513	10640	Neutral	11616	10352	12916	10415	16036	8230
Euro		Futures	105740	106680	Neutral	116305	105630	125210	102350	159880	7907
Euro/BP		Cash (*)	73750	87293	Bullish	88120	82880	105100	67462	207205	4346
Euro/SF		Cash (*)	10891	10735	Neutral	12040	10258	15816	12040	18987	8517
Hong Kong	Dollar	Cash (*)	77505	77548	Neutral	77636	77498	77535	77290	79900	77040
Hungary	Forint	Cash (*)	290340	288760	Neutral	295630	260810	260810	217750	295630	1428
India	Rupee	Cash (*)	679238	681563	Neutral	688525	660700	660700	131800	688525	1205
Israel	Shekel	Cash (*)	38911	38129	Neutral	38263	37931	42822	37931	49420	31330
Japanese	Yen	Cash (*)	12020	11454	Bearish	11586	10682	20025	8551	26280	7560
Japanese	Yen	Futures	85970	87520	Neutral	98250	87100	116950	66100	132650	4920
Malaysia	Ringgit	Cash (*)	42943	44630	Neutral	44812	38003	34250	26010	48602	24080
Mexico	Peso	Cash (*)	207291	217385	Bullish	220903	213897	170510	9230	213897	3710
New Zealand	Dollar	Cash (*)	14423	14029	Neutral	15753	13748	18943	13141	25707	11319
Norway	Krone	Cash (*)	88340	85007	Neutral	88770	77120	75800	68220	98350	49470
Poland	Zloty	Cash (*)	39225	41219	Bullish	41153	40617	31559	29578	41153	20145
Russia	Ruble	Cash (*)	614938	594250	Neutral	799130	588183	452500	288810	1614500	230
Saudi Arbia	Riyal	Cash (*)	37540	37507	Neutral	37507	37489	37497	37488	37690	36800
Singapore	Dollar	Cash (*)	14484	14267	Neutral	14537	13313	21140	13195	22700	11998
Sweden	Krona	Cash (*)	84350	89062	Bullish	77722	88850	92390	67850	110490	5088
Swiss	Franc	Cash (*)	10019	10088	Neutral	10328	9836	20600	9782	29245	7185
Swiss	Franc	Futures	9866	9939	Neutral	10040	9669	10225	6268	14167	4779
Thailand	Baht	Cash (*)	35827	35394	Neutral	36225	34492	35780	25610	56100	22750
Turkey	Lira	Cash (*)	35264	37249	Bullish	38995	35935	27901	14150	35935	11459
Commodities --											
NY	Gold	Futures	115170	119620	Neutral	137750	113040	130910	33800	192370	2530
NY	Silver	Futures	159890	167650	Neutral	212250	141550	261450	46400	498200	3505
NY	Platinum	Futures	9057	9864	Neutral	11756	9380	8380	3955	23088	3295
NY	Palladium	Futures	68330	74920	Neutral	77570	72585	31000	10250	109000	7750

NY	Copper	Futures	25055	26900	Neutral	27530	19355	29940	6915	46495	5660
NY	Crude Oil	Futures	5372	5399	Neutral	7730	5240	11225	3510	14727	59
London	Brent Crude	Futures	5682	5710	Neutral	8850	5580	9525	3620	14750	955
Share Markets ---											
Dow Jones	Industrials	Cash	197626	198857	Neutral	199876	181034	154505	197174	1998763	149
Dow Jones	Utilities	Cash	65961	65678	Neutral	72548	64706	56865	23204	72548	15825
S&P500	Futures	Cash	223620	227250	Neutral	227730	184650	180350	33950	227730	1810
S&P500	Cash	Cash	223883	227464	Neutral	227753	184944	181010	25487	227753	2026
NASDAQ	Composite	Cash	538312	557412	Bullish	569250	551237	420976	45630	551237	2885
Australia	All Ords	Cash	57191	58184	Bullish	73847	56725	64700	40330	68732	36
Austria	ATX	Cash	261843	267844	Bullish	277505	267680	408879	113317	501093	7100
Belgium	BEL20	Cash	360636	358885	Neutral	368154	311761	387548	123540	475901	1038
Brazil		Cash	60227	61665	Neutral	62350	44900	71925	37000	73920	373
Canada	TSE	Cash	152876	154182	Neutral	154326	134503	134503	31265	156851	2737
China	Shanghai	Cash	3103637	3154321	Neutral	517820	2639750	5523000	2541520	6124044	104960
Denmark	KFX	Cash	88396	89769	Neutral	101909	80508	73720	10825	104492	7829
Finland	HEX	Cash	890153	891091	Neutral	894584	739501	981848	590663	1840844	319
French	CAC-40	Cash	486231	492249	Bullish	599918	486429	538885	189730	694477	1425
Germany	DAX	Cash	1148106	1159901	CAUTION	1295803	1009300	1149200	592440	1239075	36050
Greece	Athens	Cash	64364	66030	Bullish	138000	51700	174725	47100	648438	42082
Hong Kong	Hang Seng	Cash	2200056	2250301	Neutral	2536500	1805600	2785400	900020	3195841	10700
India	Cash	Cash	2662646	2675923	Neutral	2890000	1996300	2750000	2483300	3002474	27340
Indonesia	Cash	Cash	5296711	5347022	Bullish	5796775	4381700	5525100	4033500	5524036	224706
Ireland	ISEQ	Cash	651724	659432	Neutral	693000	532500	736400	628120	1036479	188036
Italy	MIB	Cash	19235	19688	Neutral	22600	12290	30965	13110	41226	10876
Japan	NIKKEI	Cash	1911437	1945433	Bullish	2730000	1803000	2083325	1419400	3995700	125600
So Korea		Cash	26001	26320	Neutral	27300	23940	27285	15385	29551	3196
Malaysia		Cash	164173	167549	Neutral	172925	150200	186800	131050	189623	16980
Netherlands		Cash	48317	48700	Bullish	59998	43200	51830	25635	70318	4304
Norway	OBX	Cash	61775	62770	Bullish	68750	58000	64750	45500	62705	8585
Philippines		Cash	684064	724820	Neutral	972016	584200	836510	661000	813697	43953
Singapore		Cash	288076	296263	Neutral	295300	207650	347500	252175	39016	80027
Spain		Cash	93521	95159	Neutral	112500	59000	151875	54475	160404	28336
Sweden		Cash	151720	152249	Neutral	155360	133853	136929	28078	172002	1713
Switzerland		Futures	81730	83290	Neutral	84190	82500	80920	17500	95580	12600
Switzerland		Cash	82199	84175	Neutral	92190	70000	88495	51075	95481	12790
Taiwan	Cash	Cash	925350	937222	Bullish	960000	823000	930995	660900	1039359	341168
Thialand	Cash	Cash	154294	157148	Neutral	162100	120500	176380	58790	178916	20459
UK	FT100	Cash	71428	72101	Bullish	83371	69025	71442	52295	71428	172
UK	FT100	Futures	70500	72655	Bullish	72842	70935	58770	17500	70935	13720
Bonds ---											

US 30Yr	Bond	Futures	150210	151250	Neutral	153110	127250	177600	127225	177110	38200
US 10Yr	Note	Futures	12418	12426	Neutral	12750	12245	13350	11250	13531	6217
German	Bund	Futures	16415	16284	Neutral	16785	13865	16508	15825	16886	8166