



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

August 10, 2009

THAT WAS THE WEEK THAT WAS

Monday, August 10th.

- Bank of America, parent company to Countrywide Financial, will pay \$55 million (U.S.) to settle a class-action lawsuit by employees who accused the mortgage lender of misleading them about its financial health and causing the value of their retirement plan to decline
- Nortel's chief executive officer, Mike Zafirovski, along with two-thirds of the board of directors resigns seven months after the company filed for bankruptcy protection
- The U.S. Treasury will auction a total of \$75 billion (U.S.) of fixed-income securities this week, consisting of \$37 billion (U.S.) in 3-year notes on Tuesday; \$23 billion of 10-year notes on Wednesday and \$15 billion (U.S.) of 30-year bonds on Thursday.
- U.S. Supreme Court denies the bail request of Conrad Black
- U.S. Treasury Secretary Geithner asks Congress to increase the \$12.1 trillion (U.S.) national debt limit, citing that *"It is critically important that Congress act before the limit is reached (likely by mid-October) so that citizens and investors here and around the world can remain confident that the United States will always meet its obligations"*. Last week, the U.S. Congressional Budget Office (CBO) reported that the Federal Government's budget deficit had reached \$1.3 trillion (U.S.) through July 31 /09, on track to reach a record high \$1.8 trillion (U.S.) by the fiscal year end September 30, 2009.
- American credit rating agency Standard & Poors (S&P) downgrades the sovereign debt rating of Latvia to "BB" warning that its economy will contract by a further 16% this year and that the public debt will increase to 80% of its gross domestic product (GDP) by 2011. Neighbouring Estonia was downgraded to "A" (Low) citing its flexible economy, fiscal reserves and a highly rated currency board.
- In the U.K. the Royal Mint doubled the production of gold coins in the 2nd. quarter, as demand for bullion increased from investors seeking portfolio diversification

Tuesday, August 11th.

- Canada Mortgage and Housing (CMHC) reports that Canadian housing starts declined to 132,100 in July from 137,800 in June
- China's exports decline by 23% in July on a year-over-year basis, while industrial output rose by 10.8%
- Russia's gross domestic product contracts by 10.9% in the second quarter on a year-over-year basis
- U.S. unit labor costs decline by 5.8% in the 2nd. quarter versus a decline of 2.7% in the 1st. quarter
- Intercontinental Hotels Group PLC, the operator of the Holiday Inn chain, posts a net loss of \$56 million (U.S.) in the 2nd. quarter compared to a profit of \$101 million (U.S.) in the corresponding quarter a year ago. The company, which is the world's largest hotelier by room count, stated it was responding to the *"challenging"* (economic) environment by improving efficiency levels and reducing costs.
- South Korea's gross domestic product (GDP) expanded by 2.3% in the 2nd. quarter



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- In a report released by the European Commission's competition directorate, Europe's banks have received public aid equivalent to 31.2% of the E.U.'s total gross domestic product (GDP)

Wednesday, August 12th.

- U.S. international trade deficit widens to \$27.01 billion (U.S.) in June from \$25.97 billion (U.S.) in May
 - Mining giant BHP Billiton, whose revenues are generated mostly from iron ore, metallurgical coal and petroleum, posts a net profit of \$5.88 billion (U.S.) in its fiscal year ended June 30th. compared to a profit of \$15.39 billion (U.S.) in the previous fiscal year, while increasing its dividend to 82 cents per share
 - Dutch banking and insurance firm ING reports a net profit of 71 million euros in the 2nd. quarter, compared to a profit of 1.92 billion euros in the comparable period a year ago, citing declining property prices and rising bad debt charges
 - Cincinnati based Macy's Inc., America's second largest department store chain, posts a net income of \$7 million (U.S.) in its 2nd. fiscal quarter ended August 1st. compared to a profit of \$73 million (U.S.) in the same period a year ago
 - Canada's international trade deficit narrowed to \$55 million (CAD) in June, compared to \$1.1 billion (CAD) in May, reflecting rising energy prices and increased crude oil demand from the United States
 - Provincial pension fund manager Caisse de depot et Placement du Quebec incurs \$5.7 billion (CAD) in write downs in the first half of 2009, citing risky real estate loans in the United States and private equity investments in the United Kingdom. Chief Executive Officer Michael Sabia reports that the write downs (including another \$400 million CAD in asset backed commercial paper exposure) more than offset the 5% return the Caisse had earned on other investments to June 30th. *"There's a lot of work to do in repositioning the Caisse and changing our strategies," Mr. Sabia stated.*
- Understatement of the week!*
- In the middle of Finance Minister Flaherty's trade delegation visit to China, state controlled Jilin Jien Nickel Industry Co. Ltd. launches a surprise \$148.5 million (CAD) unsolicited takeover bid for Canadian Royalties Inc. Mr. Flaherty wants China to invest in publicly traded Canadian companies, suggesting that Ottawa is comfortable with such an investment structure. Mr. Flaherty plans to meet today with Lou Jiwei, chairman of China's \$200 billion (U.S.) sovereign wealth fund. *Be careful what you wish for Mr. Flaherty, because it looks to us that China, with its enormous financial muscle, is more interested in becoming an outright owner of Canadian natural resource businesses, rather than just an investor.*
 - Capita Registrars forecasts that Britain's bigger listed companies will pay out \$13 billion (U.S.) less in dividends this year in order to repair corporate balance sheets
 - Seven Norwegian municipalities sue Citigroup for \$200 million (U.S.) citing "egregious fraud" for allegedly enticing them to invest in complex financial products without being warned of their true risk
 - Concluding its two-day scheduled meeting, the Federal Reserve Board Open Market Committee



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(FOMC) issued a statement which included the following salient points, verbatim:

1. Household spending has continued to show signs of stabilizing, but remains constrained by ongoing job losses, sluggish income growth, lower housing wealth and tight credit.
2. Businesses are still cutting back on fixed investment and staffing.
3. Economic activity is likely to remain weak for a time.
4. Substantial resource slack is likely to dampen cost pressures and the committee expects that inflation is likely to remain subdued for some time.
5. Economic conditions are likely to warrant exceptionally low levels of the Federal Funds rate for an extended period.
6. The Federal Reserve will purchase a total of up to \$1.25 trillion (U.S.) of agency mortgage-backed securities and up to \$200 billion (U.S.) of agency debt by the end of the year.
The Federal Reserve is in the process of buying \$300 billion (U.S.) of Treasury securities and anticipates that the full amount will be purchased by the end of October.

In short, monetary policy is mostly unchanged since the FOMC June meeting.

Thursday, August 13th.

- The Commerce Department reports that sales at U.S. retailers declined by 0.1% in July following a 0.8% gain in June
- Wal-Mart Stores Inc., the world's largest retailer, posts a net income of \$3.44 billion (U.S.) in the 2nd. quarter, citing improved inventory management to lower costs
- Irvine, California based Realty Trac Inc. reports U.S. foreclosure filings increased to a record 360,149 properties in July. One in 355 households received a filing, reflecting another 247,000 job losses in July and falling home prices. More than 15.2 million U.S. mortgages, or 32.2% of all mortgaged properties, were in a negative equity position on June 30th.
- Eurostat, the European Union statistics agency, reports Euro zone gross domestic product (GDP) contracted by 0.1% in the 2nd. quarter, as a result of 0.3% GDP growth of in both Germany and France.
- U.S. bankruptcy filings rose by 35% over the one-year period ending June 30th.
- U.S. initial jobless claims increased by 4,000 to a seasonally adjusted 558,000 in the week ending August 8th., while continuing claims declined to 6.2 million in the week ending August 1st. from a record level of 6.34 million the prior week. *While this 140,000 drop in continuing claims could reflect some re-entry into the work force; there is also the strong likelihood that a considerable number of claimants may have just exhausted their unemployment benefits and alas, are still jobless.*

Friday, August 14th.

- U.S. industrial production rose by 0.5% in July versus a gain of 0.4% in June
- U.S. capacity utilization increased to 68.5% in July from 68.3% in June
- The Commerce Department reports that the U.S. consumer price index remained unchanged during July; but prices are 2.1% lower on a year-over-year basis



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- University of Michigan consumer sentiment declined to 63.2 in August versus a reading of 66.0 in July
- According to a recent Bloomberg survey, more than 150 publicly traded American lending companies own non-performing loans that equal 5% or more of their holdings; a level that could impair their equity and place them in an unsound condition, according to regulators
- Canadian factory sales increased by 1.9% in June
- Abercrombie & Fitch posts a loss of \$26.7 million (U.S.) in its fiscal 2nd. quarter ended August 1st. citing sluggish sales and the closure of its Ruehl clothing and accessories stores
- Montreal-based Groupe Aeroplan reports a profit of \$26.7 million (CAD) for the quarter ended June 30th. compared with a profit of \$31.5 million (CAD) over the same period a year ago
- U.K. Government pledges \$565 million (U.S.) in loans to European aircraft manufacturer Airbus, to ensure that parts for the A350 wide-body Airbus passenger jet will be built in Britain
- Q-Cells, the world's largest manufacturer of solar cells, announces it will "permanently" layoff 20% of its work force at its Thalheim plant in Germany, citing reduced product demand and a sharp drop in the price of solar components
- The National Statistics Institute reports that Spain's gross domestic product contracted by 1% in the 2nd. quarter ended June 30th. and by 4.1% on a year-over-year basis
- State of California Controller, John Chiang, plans to halt further issuance of IOUs and redeem the \$1.95 billion (U.S.) already in circulation with a \$10.5 billion (U.S.) borrowing program
- U.S. department store chain, JC Penney reports a loss of \$1 million (U.S.) in the 2nd. fiscal quarter ended August 1st. compared with earnings of \$117 million (U.S.) in the same period last year, citing a continued decline in sales

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