

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

# THAT WAS THE WEEK THAT WAS



Monday, September 7TH

(Labour Day Holiday in Canada and the United States)

## TUESDAY, SEPTEMBER 8TH

- The price of gold bullion breaks above \$1,000 (U.S.) an ounce
- The Turkish Statistics Office reports that Turkey's industrial production declined by 9.2% in July on a year-over-year basis, but rose by 0.9% in the month of July
- The U.S. Treasury will auction \$70 billion (U.S.) of fixed income securities this week; comprised of \$38 billion of 3-year notes today, \$20 billion of 10-year notes on Wednesday and \$12 billion of 30-year bonds on Thursday. The Federal Reserve will be exercising more of its quantitative easing program during this auction
- Yellow Pages plans to raise \$150 million (CAD) in capital via equity issue
- Canadian building permits declined by 11.4% in July
- The U.S. Federal Reserve reports that consumer credit contracted at an annual rate of 10% in July to \$2.5 trillion (U.S.)
- Telus buys Black's Photo for \$28 million (CAD)
- Barrick Gold plans to raise \$3 billion (U.S.) via equity issue

- New York Attorney General, Andrew Cuomo, demands further co-operation and information from the Bank of America and the bank's lawyers in its investigation regarding the B of A takeover of Merrill Lynch, by September 14th.
- In a radical report, the United Nations Conference on Trade and Development (UNCTAD) states that the present global financial system, under which the U.S. dollar acts as the world's reserve currency, should be subject to a wholesale reconsideration.
- U.S. dollar index future – spot price falls to close at record low of 77.28

## WEDNESDAY, SEPTEMBER 9TH

- Due to strong investor demand, Barrick Gold increases the size of its equity issue from \$3 billion (U.S.) to \$4.03 billion (U.S.). The world's largest gold mining company has contracts to sell 9.5 million ounces of gold bullion at an average price of \$395 (U.S.). This underwriting enables Barrick to accelerate its plan to retire its hedged gold production.
- Canada Mortgage and Housing Corp. reports that Canadian housing starts rose by more than 12% in August to a seasonally-adjusted annual rate of 150,400 compared with 134,200 in July

- Toronto-based Fairfax Financial Holdings plans to raise \$1 billion (CAD) via an equity issue in order to fund the purchase of 27% of Connecticut-based Odyssey Re-Insurance which will become a wholly-owned subsidiary.

- The Federal Statistical Office reports that German exports rose by 2.3% in July despite a 0.9% drop in industrial production

- Moody's Investors Services reports that it doesn't expect any downgrades of countries with 'AAA' sovereign debt ratings, such as the United States in the "near future". Pierre Cailleteau, managing director of Moody's Sovereign Risk Group, states that "although highly unlikely, it is conceivable that a large and wealthy economy could lose its 'AAA' rating if it were to experience a material and irreversible deterioration in its debt conditions over the next five years or so".

We suggest that Mr. Cailleteau had best gird his loins for the medium term because in the case of the U.S., sustained increases in government deficits and debt are already well forecast and anticipated. Indeed, both the Office of Management and Budget (White House) and the Congressional Budget Office (Congress) have recently projected trillion dollar annual deficits for the next decade. While the American national debt is rapidly approaching \$11.8 trillion, U.S. Treasury Secretary Geithner has requested that Congress raise the U.S. statutory debt limit from its current \$12.1 trillion level before mid-October. Unlike Mr. Cailleteau, we do not anticipate that the U.S. will be able to service its debt obligations over the medium term without massive cuts to its entitlement programs.

- West Jet files a prospectus for a \$150 million (CAD) equity issue

- The U.S. Federal Reserve releases its latest Beige Book summary of economic activity which includes the following observations:

1. Consumer spending remains soft in most districts
2. Labour market conditions remain weak across all districts
3. Residential real estate markets remain weak and downward pressure on house prices continues in most areas
4. Demand for commercial real estate space remains weak
5. Many districts report that credit standards are tight and loan demand continues weak
6. Most districts reported improvement in manufacturing production
7. Wage pressures remain minimal across all districts
8. Consumer prices remain steady in most areas

Despite the Fed's perception of U.S. economic stability, we believe these Beige Book findings will prove ominous and challenging for a protracted period

#### THURSDAY, SEPTEMBER 10TH

- The U.S. Labor Department reports that initial claims for state unemployment benefits declined by 26,000 to 550,000 in the week ended September 5th. While continuing claims fell by 146,000 to 6.09 million in the week ended August 29th. While this drop in continuing claims could represent some re-entry into the workforce, there is also the strong probability that a host of claimants may have exhausted their unemployment benefits.
- Bank of England leaves key lending rate unchanged at a record low 0.5%
- The independent, bipartisan U.S. International Trade Commission has recommended that America impose tariffs on imports of tires from China. Foreign companies investing in China are often required to export the bulk of their production as a condition of being allowed to enter the Chinese market. This is the case with Cooper Tire & Rubber Co. of Findlay, Ohio, which agreed to export 100% of its production in return for being allowed to invest in a Chinese tire factory. U.S. President Obama has until September 17th. to decide whether or not to accept the Commission's recommendation.
- Irvine, California-based Realty Trac Inc. reports that 358,471 properties in the U.S. either received a default or auction notice; or, were seized in August, marking the sixth consecutive month that foreclosure filings have exceeded the 300,000 level
- The Commerce Department reports that the U.S. international trade deficit widened by 16% to \$31.96 billion (U.S.) in July from a \$27.49 billion (U.S.) in June, which was revised from an initial estimate of \$27.01 billion (U.S.) in June
- Statistics Canada reports that Canada registered an international trade deficit of \$1.4 billion (CAD) in July compared with a trade surplus of \$37 million (CAD) in June
- General Motors decides to sell its European operations Opel and Vauxhall to Canadian auto parts group Magna International with conditions attached

- In business for 117 years, Dutch investment dealer Van der Moolen files for bankruptcy
  - Bank of Canada keeps the Bank Rate unchanged at 0.25%
  - In testimony before the Congressional Oversight Panel, U.S. Treasury Secretary Tim Geithner stated that “we still have a long way to go before true (economic) recovery takes hold.”
  - In a fiscal update and blaming a murky economic outlook, Canadian Finance Minister Jim Flaherty refused to promise when the Conservatives might balance the federal budget, but assured Canadians that despite a projected record \$55.9 billion (CAD) deficit in the current fiscal year, the federal government pledged to reduce the annual deficit to \$5.2 billion by 2015.
  - At the same time, Mr. Flaherty’s friend Mark Carney, Governor of the Bank of Canada, reported that the country’s gross domestic product (GDP) will likely grow at a faster pace over the second half of 2009 than the 2.2% annualized rate that the bank predicted in July.  
Great news, Mr. Governor! This should be bullish for the Canadian dollar: but wait, even as recently as this morning, you’re on record stating that the loonie is too highly valued at \$0.92 (U.S.) and whither your pledge to maintain the bank rate at 0.25% until June, 2010 – what a conundrum!
- FRIDAY, SEPTEMBER 11TH
- The Reuters/University of Michigan preliminary index of consumer sentiment increased to 70.2 in September from a reading of 65.7 in August.
  - Brazil’s gross domestic product (GDP) expanded by 1.9% in the second quarter
  - Statistics Canada reports that its new house price index rose by 0.3% in July, marking the first monthly increase in 10 months
  - Encana Corp. to split oil and natural gas assets into two separate companies
  - Canadian bankruptcies fall by 5.4% in July
  - Canadian Finance Minister admits that Canada only has “limited” tools to tame any appreciation in the Canadian dollar. “We ought not to kid anyone about that.”  
See That Was The Week That Was, Wednesday, August 26th.
  - In a European Commission report being prepared for the October meeting of EU finance ministers in Goteborg, Germany, Britain’s public debt will explode to 180% of gross domestic product (GDP) within a decade, unless future U.K. Governments take drastic measures to restore fiscal balance
  - The U.S. Treasury reports that the U.S. Government posted a deficit of \$111.4 billion (U.S.) in August, increasing the fiscal 2009 budget deficit to \$1.378 trillion (U.S.). with only one month remaining in the current fiscal year. With the current statutory debt limit set at \$12.1 trillion (U.S.), Treasury Secretary Geithner is urging Senate leaders to increase the debt limit because “raising the statutory debt limit is critical to ensuring global investor confidence in the credit worthiness of the United States.” In the meantime, the U.S. national debt has just surpassed the \$11.8 trillion mark.