

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE
THAT WAS THE WEEK THAT WAS



Monday, October 19th

The National Association of Homebuilders' index of confidence in new home sales declined to a reading of 18 in October from 19 in September

MONDAY, OCTOBER 19TH

- Apple Inc. posts net earnings of \$1.67 billion (U.S.) in its fiscal 4th. quarter ended September 26th. citing strong sales of iPhones, iPods and Macintosh computers
- Speaking at the Value Investing Congress in New York, David Einhorn, manager of hedge fund Greenlight Capital, states he is concerned that efforts to save the financial system and fuel economic recovery are undermining the value of currencies, such as the U.S. dollar. Citing the ballooning government deficits in some of the world's most developed countries, Mr. Einhorn commented that Greenlight has been buying physical gold this year.
- Speaking at a conference on Asia in Santa Barbara, California, Federal Reserve Chairman Bernanke warned that huge trade imbalances between the United States and the rest of the world had played a central role in the global economic crisis and that they could do so again. Mr. Bernanke said the United States needs to get its fiscal house in order, while Asian countries need to rely less on exports for their growth. "The United States must increase its national savings rate. The most effective way to accomplish this goal is by establishing a sustainable fiscal program trajectory, anchored by a clear commitment to substantially reduce federal deficits over time." Mr. Bernanke, you are sounding like a recently awakened lone voice, crying in the wilderness; however, too little, too late! (See also Winter Warning, September 14 /09 – Behold A Pale Horse and He Who Sat Upon Him Was Named Death, and Hell Followed With Him).

- Fears that Britain could be facing a period of prolonged economic weakness increase after the latest Financial Times manufacturing survey of 62 U.K. companies reveals only 30% believe an economic recovery has begun in their sector, while 40% felt that banks were still being restrictive about providing loans

TUESDAY, OCTOBER 20TH

- Speaking at the Value Investing Congress in New York, Canadian hedge fund manager Eric Sprott warns there may be problems ahead for the world economy "when quantitative easing by central banks ends." We agree that when the Federal Reserve completes its program of purchasing U.S. Treasury bonds in order to keep the general level of interest rates low (quantitative easing), it will be a daunting task for the U.S. Government to borrow enough money at prevailing rates of interest, given the burgeoning growth of the U.S. national debt, which is now within \$25 billion (U.S.) of the \$12 trillion (U.S.) level. (See also Winter Warning, September 28 /09 – The American Greenback Will Be Cast into the Hazard and The Deteriorating U.S. Debt Dilemma).
- The Commerce Department reports that U.S. housing starts were basically flat in September, from a revised seasonally adjusted annual pace of 587,000 in August

WEDNESDAY, OCTOBER 21ST

- California Attorney General, Jerry Brown, files a lawsuit against Boston-based State Street Bank and Trust (the world's largest institutional asset manager) for \$200 million (U.S.), alleging illegal overcharges and penalties owed to California's two largest pension funds: the California Public Employees' Retirement System (Calpers) and the California State Teachers' Retirement System, for foreign currency trade fees.
- In a new report, the Toronto Dominion Bank projects that Canada's combined Federal and Provincial deficits for the current fiscal year ending March 31, 2010 could reach as much as \$100 billion (CAD), representing 6% of the country's gross domestic product (GDP)
- Brazil imposes a 2% tax on money entering the country to invest in equities and fixed income products. This initiative is designed to slow the appreciation of Brazil's currency, the real, which has gained 36% against the U.S. dollar this year.
- Greece promises forceful action to reduce its budget deficit and improve the quality of its official statistics, after its European allies voiced unusually strong criticism of the country's management of its public finances. George Papaconstantinou, Greece's finance minister in the new socialist government, disclosed that the country's deficit would soar this year to almost 12.5% of gross domestic product (GDP), far in excess of estimates provided by the former conservative government.
- Having sold his multinational corporate security firm to Marsh & McLennan, Jules Kroll plans to launch a credit rating business, to challenge the big three U.S. credit rating agencies in the first quarter of 2010. The company, which projects \$100 million (U.S.) in annual turnover by the end of its third year, will specialize in giving second-opinion ratings on complex securitized products. Mr. Kroll hopes to hire top experts from hedge funds and acquire specialist research houses.
- Sun Microsystems, while awaiting European regulator approval of being acquired by Oracle Corp., announces 3,000 job layoffs in order to pare expenses over the next 12 months
- American investment bank Morgan Stanley reports a net profit of \$757 million (U.S.) in the 3rd. quarter ended September 30th. compared to a profit of \$7.07 billion (which included huge one-time gains) in the same period a year ago. Chairman and CEO John Mack cited underwriting revenues in debt and equity issues increased by 74%, as well as "improvements in fixed income sales and trading, commodities, prime brokerage and our wealth management business."
- Aerospace giant Boeing Corp. posts a net loss of \$1.6 billion (U.S.) in its 3rd. fiscal quarter, compared to a profit of \$695 million (U.S.) in the same period last year. Chairman and CEO Jim McNerney reported that "The 787 cost reclassification and the 747 charge for increased costs, plus difficult market conditions, clearly overshadowed ... solid performance across our commercial production programs and defense business."
- The Labor Department reports that unemployment rates rose in 23 U.S. states in September and reached record levels in Nevada (13.3%), Rhode Island (13%) and Florida (11%), while Michigan continued to lead the nation at 15.3%.
- In the U.S. Federal Reserve's regular report on economic activity, known as the Beige Book, the Central bank cites that "gains in economic activity generally outnumber declines, but virtually every reference to improvement was qualified as either small or scattered." Few businesses were hiring, credit conditions were deteriorating in some markets and commercial real estate activity declined across every region in the country, as businesses closed down or consolidated, leaving behind warrens of empty offices and half-empty shopping centers.
- The U.S. Treasury is poised to announce that seven companies which received the most government bailout assistance, namely Citigroup, Bank of America, Chrysler and Chrysler Financial, American International Group (AIG), General Motors and General Motors Acceptance Corp. (GMAC) must reduce the cash payouts to their 25 highest-paid executives by an average of 90% of their 2008 remuneration. For many of the executives, the cash they would have received will be replaced by stock, which they will be restricted from selling for five years.

- In his new book "Too Big To Fail", New York Times reporter Andrew Sorkin refers to a secret meeting in Moscow during the summer of 2008, between Hank Paulson, then U.S. Treasury Secretary, and the Goldman Sachs board of directors. This startling revelation raises the question whether Mr. Paulson acted improperly either on behalf of, or, in concert with his former Goldman Sachs colleagues in terms of discussing future bailout plans and / or other potential financial initiatives of the U.S. Treasury and the Federal Reserve Board.
- The Dominion Bond Rating Service (DBRS) cuts the Province of Ontario debt rating to AA (Low), citing the Province's projected budget deficit of \$24.7 billion (CAD) for the current fiscal year ending March 31, 2010
- A recent survey by Japan's Ministry of Economy, Trade and Industry reveals that most Japanese companies don't expect production and sales to return to 2007 levels until 2011 at the earliest.

- The American Association of Railroads reports that rail traffic remains subdued for the week ended October 10th. – originating 273,429 carloads, down 17.2% compared with the same week in 2008. Regionally, carloads were down 15.4% in the West and 19.7% in the East. For the first 40 weeks of 2009, U.S. railroads reported cumulative volume of 10,655,334 carloads, down 18.1% from 2008.

- The Nelson A. Rockefeller Institute of Government reports that U.S. state tax collections declined by 16.6% in the 2nd. quarter, representing the steepest drop since 1963.

THURSDAY, OCTOBER 22ND

- The U.S. Labor department reports that initial claims for state unemployment benefits rose by 11,000 to 531,000 in the week ended October 15th. from a revised 520,000 the previous week. Continuing claims, those drawn by workers for more than a week, declined by 98,000 to 5.923 million in the week ended October 10th. as more than 5,000 workers exhausted their unemployment benefits every business day.
- The Conference Board reports that the U.S. index of leading economic indicators increased by 1% in September, following a revised gain of 0.4% in August, originally reported as an increase of 0.6%
- According to the Chinese National Bureau of Statistics, China's gross domestic product (GDP) grew at an 8.9% annual rate in the third quarter, following a 7.9% annual rate of expansion in the 2nd. quarter. Meanwhile, Qin Xiao, Chairman of China Merchants Bank, states in the Financial Times that the Chinese government should not fear a "moderate slowdown" in the economy. "Monetary policy must not neglect asset price movements; therefore, it is urgent that China shifts from a loose monetary policy stance to a neutral one."

- Moody's Investors Service places Bank of Montreal on credit watch pending a rating downgrade due to weakness in the bank's U.S. operations

FRIDAY, OCTOBER 23RD

- In its quarterly production report, world mining giant BHP Billiton warns that China has nearly replenished its commodity stocks, evident by "higher than normal stockpiles" therefore, the main supporter of the metals-mining complex may lose momentum over the next few months. "Despite the low metals inventories in developed countries, there is little evidence yet of sustainable demand for metals emerging from countries such as the United States."
- The U.K. Office for National Statistics reports that Britain's gross domestic product (GDP) contracted by 0.4% in the 3rd. quarter ended September 30th. citing declines in the manufacturing, transportation, construction and service sectors.
- A new report by the National Institute of Economic and Social Research (NIESR) reveals that household wealth in Britain declined by 844 billion pounds between 2007 and 2008, representing a drop of nearly 13% and driven by a significant decline in house prices and the collapse of the stock market
- The Munich-based Ifo institute reported that its business sentiment index rose slightly from a reading of 91.3 in September to a level 91.9 in October
- Canada's federal government records a deficit of \$5.3 billion (CAD) in August, bringing the total deficit for the first 5 months of the current fiscal year to \$23.7 billion (CAD)

- The U.S. Treasury announces an enormous debt issuance totaling \$182 billion, to be auctioned next week: \$44 billion of 2-year notes; \$41 billion of 5-year notes; \$31 billion of 7-year notes; as well as auctions of 3-month and 6-month Treasury Bills and 4-year 6 month Treasury Inflation Protected Securities (TIPS). The U.S. Treasury has raised \$1.27 trillion in new cash this calendar year, of which the Federal Reserve has contributed \$298 billion, leaving only \$2 billion remaining within its quantitative easing program authorized last March.
- Online bookseller Amazon.com posts a profit of \$199 million (U.S.) in the 3rd. quarter on sales of \$5.45 billion (U.S.)
- The National Association of Realtors reports U.S. existing home sales rose by 9.4% in September, to a seasonally adjusted annual rate of 5.57 million units, following a downwardly revised pace of 5.1 million in August. The median sale price was \$174,900 (U.S.), down 8.5% from the same period a year ago.
- Aggressive cost-cutting enables software giant Microsoft to post a \$3.6 billion (U.S.) net profit in the 3rd. quarter ended September 30th. Microsoft's chief financial officer (CEO), Chris Liddell, reports that the company was "very pleased with our performance this quarter and particularly, by the strong consumer demand for Windows 7."