

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



Monday, November 16th

Goldcorp announces the takeover of Canplats Resources for \$238 million (CAD) in stock

MONDAY, NOVEMBER 16TH

- Canadian factory sales rose by 1.4% in September
- The Canadian Real Estate Association reports existing home sales in Canada rose by 41% in October versus October, 2008
- General Motors posts a 3rd. quarter loss of \$1.15 billion (U.S.), as government stimulus programs helped the automaker increase its sales and reduce inventory. GM is also in position to accelerate repayment of a \$6.7 billion (U.S.) loan from the U.S. Treasury; as well as the \$1.4 billion (CAD) from Canada's Export Development Corp. These loans should be repaid ahead of their July, 2015 due date
- The Commerce Department reports that U.S. retail sales rose by a seasonally adjusted 1.4% in October, citing a rebound in auto sales
- American home improvement retailer, Lowe's Companies, posts a fiscal 3rd. quarter profit of \$344 million (U.S.), compared with a profit of \$488 million (U.S.) in the same period a year ago
- According to a report by equity researcher AlphaValue, Lloyds Banking Group and Royal Bank of Scotland are among a group of large European companies which are underestimating the size of their pension benefits by a combined 300 billion euros
- In a speech to the Economic Club of New York, Federal Reserve Chairman Ben Bernanke said he expects "moderate economic growth to continue in 2010. Final demand shows signs of strengthening, supported by the broad improvement in financial conditions ... will help ensure that the dollar is strong and a source of global financial stability." See Winter Warning, September 28 /09 – The American Greenback Will Be Cast into the Hazard.
- Japan's gross domestic product (GDP) grows by 4.8% in the 3rd. quarter
- In a speech to the Asia-Pacific Economic Co-operation (APEC) forum in Singapore, U.S. President Barack Obama states "As the (U.S.) economy recovers, I intend to take serious steps to reduce America's long-term deficit. Debt-driven growth cannot fuel America's long-term prosperity." See Winter Warning, November 9 /09: Exit the Eagle – Enter the Dragon / America's Date with a Destiny of Debt.

TUESDAY, NOVEMBER 17TH

- Goldman Sachs and Berkshire Hathaway announce a joint \$500 million (U.S.) assistance program for 10,000 American small businesses, ranging from counseling to obtaining funding

- In an interview from China, International Monetary Fund Director, Dominique Strauss-Kahn comments that “the days of one country’s currency as the global benchmark are numbered. The U.S. dollar remains the currency standard, but globalization demands a new global currency that provides representation for the growing importance for a variety of major economies”
- The Labor Department reports that the U.S. producer price index (PPI) rose by 0.3% in October, compared to a decline of 0.6% in September. David Darst, chief investment strategist for Morgan Stanley Smith Barney, commented that “Many people have worried (that) inflation will snap back with a vengeance, but there still seems to be so much global overcapacity that in the short term, we can focus on the play at hand.”
- Home Depot, the world’s largest home improvement retailer, reports a profit of \$689 million (U.S.) for the three months ended November 1st. compared to a profit of \$756 million (U.S.) in the same period a year ago, citing the weakest sales categories were in goods typically used by professional builders: plywood, lumber, concrete, gypsum, electrical and millwork.
- Historically low mortgage rates are fueling massive sales in the Canadian housing market, to the point where some observers are sounding the alarm about a bubble in house prices. Indeed, the Canadian Real Estate Association has increased its sales forecast for the year by 6.6% to 460,200 units.
- French bank Societe Generale has advised clients to be ready for a possible “global economic collapse” over the next two years, mapping out a strategy of defensive investments to avoid wealth destruction. In a 68-page report entitled “Worst Case Debt Scenario” the bank’s asset team asserts that state rescue packages over the last year have merely transferred liabilities onto sagging sovereign shoulders, creating a fresh set of problems. (See special publication: Why Dow 1,000 Is Not a Silly Number by Ian Gordon).
- Harvard economics professor Kenneth Rogoff cautions that countries like the United States have been adding such significant amounts to their national debt as a proportion of their total economies, that there is the potential for a default at some point in the future. “The huge increase in government debt has led to patently unsustainable fiscal policies across a number of major countries. So far, the rest of the world’s been willing to finance them, primarily with savings from China and elsewhere, but if investors’ confidence is shaken, we might see the yields on long-term debt rising, and rising very sharply.”

THURSDAY, NOVEMBER 19TH

- #### WEDNESDAY, NOVEMBER 18TH
- The Commerce Department reports that U.S. housing starts declined by 10.6% in October, following an increase of 1.9% in September. Building permits, a sign of future construction, fell to an annual pace of 552,000 in October compared to 575,000 in September.
 - The Labor Department reports that the U.S. Consumer Price Index (CPI) rose by 0.3% in October, but declined by 0.2% on a year-over-year basis
 - Canada’s largest banks cut their fixed rates for mortgages by up to 25 basis points
 - The Canadian Consumer Price Index (CPI) rose by 0.1% in October on a year-over-year basis
 - The Mortgage Bankers Association reports that a record one in seven U.S. mortgages, or four million homeowners, were either in foreclosure, or at least one mortgage payment late in the 3rd. quarter
 - America Online (AOL) announces 2,300 job layoffs, or one third of its work force, as it spins off as a separate company from Time Warner
 - For the second time within the last 12 months, Manulife Financial launches an equity issue in order to raise its capital levels. The new equity offering is targeting at least \$2.5 billion (CAD) which will, not only be dilutive for existing shareholders, but also, increase the company’s financial cushion to a level significantly higher than what is required by regulators.
 - The Province of Saskatchewan downwardly revises its forecast for potash sales in the current fiscal year to \$109 million (CAD), representing its lowest revenue for the fertilizer in 13 years. In a mid-year financial update, the Province’s Finance Minister Rod Gantfoer projects 2009 Saskatchewan potash sales of 4.4 million tonnes, its smallest production in 37 years.

- In a speech to the Foreign Policy Association in New York, Bank of Canada Governor Mark Carney asserts that “any discussion of the yuan (renminbi) as an international means of exchange is “moot” until the Chinese government opens its capital markets and allows its currency to be circulated in international markets. However, with few alternatives ready to assume a reserve role, the U.S. dollar can be expected to remain the principal (world’s) reserve currency for the foreseeable future.” Long Wave Analytics continues to marvel at the Canadian central banker’s ability to grasp the obvious!
- Appearing before a Congressional Joint Economic Committee, U.S. Treasury Secretary Timothy Geithner urges Congress to move quickly in overhauling the nation’s badly flawed financial rules. “To ensure the vitality, the strength and stability of our economy, we must bring our system of financial regulation into the 21st. century.” Interestingly, Republican committee members, clearly frustrated and unhappy with the slow pace of the economy’s recovery, vented their anger and criticism at the Treasury Secretary.
- At a regular press conference, Japan’s Deputy Prime Minister, Naoto Kan, acknowledges that “the government holds the view that the country is in a deflationary state. We are going to tell our economic views to the Bank of Japan (BOJ) because there may be a lot (more) to be done on the monetary side.” Separately, Finance Minister Hirohisa Fujii commented that “Regardless of whether we call it deflation or not, the recent price declines are not right and worrisome. This is one of the major policy issues right now.” While the BOJ predicts that prices will likely continue to decline over the next two years, the bank has downplayed the possibility of a deflationary spiral.
- Gap Inc., one of the world’s largest apparel retailers, reports that net profit rose by 25% to \$307 million (U.S.) for the quarter ended October 31st. compared to a profit of \$246 million (U.S.) in the same period a year ago
- According to a recent study by Amherst Securities Group, about 7 million U.S. properties are destined to go into foreclosure in 2010
- The U.S. Labor Department reports that initial claims for state unemployment benefits were unchanged at a seasonally adjusted rate of 505,000 in the week ended November 13th.
- Dell Inc. reports its net income declined by 54% to \$337 million (U.S.) in the quarter ended October 30th. compared to a net profit of \$727 million (U.S.) in the same period a year ago.

FRIDAY, NOVEMBER 20TH

- According to the Office of the Superintendent of Bankruptcy Canada, the number of Canadians filing for bankruptcy increased by 44.8% in September compared to the same month a year ago
- The State of Ohio Attorney General, Richard Cordray, sues credit rating agencies Standard & Poor’s, Moody’s Investors Service and Fitch Ratings, alleging they awarded inflated ratings to mortgage backed securities, in order to increase profits. Mr. Cordray accuses the agencies of “wreaking havoc on U.S. financial markets by providing unjustified and inflated ratings” on mortgage related securities. The suit alleges that five Ohio public employee retirement and pension funds lost \$457 million (U.S.) by investing in ‘AAA’ rated mortgage-backed securities. Mr. Cordray contends that “The rating agencies assured our employee pension funds that many of these mortgage-backed securities had the highest credit ratings and the lowest risk, but they sold their professional objectivity and integrity to the highest bidder.” Long Wave Analytics will not be surprised to see more litigation of this nature!
- Moody’s Investors Service warns New York State that its ‘Aa3’ credit rating could be in danger of a downgrade if the Legislature does not take serious steps to close its \$3.2 billion (U.S.) budget gap. In its statement, Moody’s warned against one-time measures to close the gap, saying the State must address a stubborn reality: it is spending more than its revenue will support. “The next three months will be critical to the State’s credit rating.”