

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



Monday, December 7TH

The Federal Reserve reports that consumer lending declined by 1.7% in October, or \$3.5 billion (U.S.) and represents the ninth consecutive monthly drop

MONDAY, DECEMBER 7TH

- The Discover Small Business Watch Index fell by 12 points in November to a reading of 76.5 from a level of 88.5 in October, as more owners cited serious concerns about cash flow and economic conditions for their own businesses worsening
- Statistics Canada reports Canadian building permits rose by 18% in October to a 13-month high of \$6.1 billion (CAD) citing increases in industrial, educational and commercial activity
- German manufacturing orders declined by 2.1% in October from September
- Canada to host G-20 meeting in Toronto in June, 2010
- In a speech to the Economic Club of Washington, Federal Reserve Board Chairman Ben Bernanke stated that “while it looks like an economic recovery has begun, we still have some way to go before we can be assured that the recovery will be self-sustaining.” You’ve got that right, mister, a long way!
- In its quarterly report, ‘AAA’ Sovereign Monitor, Moody’s Investors Service examines the credit worthiness of the world’s most highly rated countries, ranging from the U.S. to Australia. The rating agency states that both the U.S. and the U.K. must reduce their ballooning deficits to avoid threats to their triple-A credit ratings. In both the U.K. and U.S. situations, Moody’s warned that much will depend upon the vigour of the economic recovery and the willingness of their governments to shrink the deficits.

- Fitch Ratings downgrades Greece’s sovereign credit rating to BBB(High) from A(Low) as the country’s National Statistics Office reports that Gross Domestic Product (GDP) contracted by 1.7% in the 3rd. quarter

TUESDAY, DECEMBER 8TH

- German industrial production declines by 1.8% in October on weaker output of machinery and automobiles
- The Bank of Canada leaves its bank rate unchanged at 0.25% reiterating that “Conditional on the outlook for inflation, the target overnight rate can be expected to remain at its current level until the end of the second quarter of 2010”
- The Bank of Nova Scotia reports a net profit of \$902 million (CAD) in the 4th. fiscal quarter ended October 31st. citing all main divisions posting profits compared to the same period a year ago
- Moody’s Investors Service downgrades the credit ratings of several Dubai government-controlled companies, citing “recent comments and statements from government officials which cause us to believe that no meaningful government support should be assumed for any entity that is nor directly part of, or formally guaranteed by, the government. All (entities) remain on (credit watch) review for further (potential downgrade).”

- Canadian regulators, led by the Ontario Securities Commission, are nearing a penalty settlement likely to be under \$200 million (CAD), with a group of major Canadian banks and brokerages that sold non-bank asset backed commercial paper (ABCP) to clients before the \$35 billion (CAD) market froze during the credit crisis in August, 2007. Firms involved in the settlement talks include the National Bank of Canada, Bank of Nova Scotia, Canaccord Financial, Credential Securities and Bank of Montreal
- Wireless equipment maker LM Ericsson announces 1,000 job layoffs in Sweden, citing higher production efficiency after the introduction of new and more advanced products

WEDNESDAY, DECEMBER 9TH

- Japan launches its 4th. fiscal rescue package by spending a further \$81 billion (U.S.) and raising debt issuance to a record \$835 billion (U.S.) this year, despite warnings from Finance Minister Hirohisa Fujii that Japan risks exhausting the patience of bond investors. Since Japan must raise another \$112 billion (U.S.) through an extra budget to pay for stimulus measures, there is growing concern that the Democrat-led coalition government will not be able to meet deficit targets in its fiscal year 2010.
- Standard & Poors places Spain's sovereign long-term debt rating of AA (High) on credit watch with a negative outlook
- U.S. Treasury Secretary Timothy Geithner announces the extension of the government's \$700 billion (U.S.) Troubled Asset Relief Program (TARP) to October 3, 2010 from the previously designated expiration date of December 31, 2009. The Treasury Secretary expects the government will recover all but \$42 billion (U.S.) of the \$550 billion (U.S.) expended in total
- In a speech at the U.S. Military Academy in West Point, New York, Jeffrey Immelt, General Electric's chief Executive officer admitted that his generation of business leaders had succumbed to "meanness and greed" which had harmed the U.S. economy and increased the gap between rich and poor. "Rewards became perverted. The richest people made the most mistakes with the least accountability." The electric light bulb finally goes on in Mr. Immelt's head – better late than never!
- Ireland's Finance Minister Brian Lenihan tables a "painful" budget introducing 4 billion euros (\$6 billion U.S.) in spending cuts in an attempt to reduce the country's soaring debt.

- U.K. Chancellor of the Exchequer Alistair Darling introduces a punitive one-time, 50% "super tax" on bank bonuses. London's banks were preparing to pay seven billion pounds (\$12 billion Canadian) at the end of December, having received an estimated 850 billion pounds in taxpayer bailout funds during the past year. Under the new tax law, banks must pay a tax of 50% on all bonuses of more than 25,000 pounds paid before April 5, 2010. Any banks attempting "avoidance schemes" by postponing bonuses would face further, unspecified measures. Needless to say, the reaction from senior London bankers was one of complete outrage, coupled with grave warnings that the industry would move out of London to jurisdictions where the business is less heavily regulated.
- Venezuelan authorities seize seven banks, alleging widespread irregularities in the banks' practices and illegal actions by their executives. Dozens of fugitive bankers implicated in the scandal, including wealthy executives with links to President Chavez's government, have apparently fled the country.
- As Dubai World seeks to restructure \$26 billion (U.S.) of debt obligations, the severe decline in bond prices of Dubai's state-controlled companies to record lows, signals growing concern that more borrowers will fall behind on their debt payments. Oliver Bell, the manager of Middle East and Africa investments at Pictet Asset Management in London, stated "We are concerned that it's just not Dubai World that has issues, rather the health of other government-related entities is in question."

THURSDAY, DECEMBER 10TH

- The Labor Department reports that initial claims for state unemployment benefits rose by 17,000 to 474,000 in the week ended December 4th.
- The Bank of Canada leaves its bank rate unchanged at 0.25%, citing overall risks to inflation are "tilted slightly to the downside"
- The Commerce Department reports the U.S. trade deficit narrowed to \$32.94 billion (U.S.) in October as exports surged to their highest level in nearly a year, following a revised deficit of \$35.7 billion in September
- According to an analysis by the Globe and Mail, bonuses at Canada's six largest banks will reach a record \$8.3 billion (U.S.) for fiscal 2009, representing an 18% increase from fiscal 2008

- In a pre-budget report, U.K. Chancellor of the Exchequer reveals that the government intends to borrow a record 178 billion pounds in the current fiscal year, as well as an additional 176 billion pounds in the next fiscal year. In reaction, 10-year U.K. government gilts (bonds) rose by 10 basis points in yield to 3.75% (or, declined by 82 pence in price per 1,000 pound gilt).
- Statistics Canada reports the country recorded a trade surplus of \$428 million (CAD) in October, following September's deficit revision to \$850 million (CAD), as shipments of gold, canola, petroleum and passenger cars to the U.S. lifted exports while imports eased
- The Congressional Budget Office reports the U.S. Government posted a deficit of \$292 billion in the first two months (October and November) of the current fiscal year ending September 30, 2010; which represents \$1.752 trillion on an annualized basis
- Bank of Canada Governor Mark Carney cites household debt as the biggest risk to the Canadian financial system. Mr. Carney is urging prudence among Canadians who are borrowing at historically cheap interest rate levels today, but who may not be able to afford higher interest payments tomorrow.
- U.S. House of Representatives Majority Leader, Steny Hoyer, anticipates Democrats will vote to raise the national statutory debt limit by \$1.8 trillion to \$13.9 trillion before the end of December, hoping this issue won't have to be revisited prior to the 2010 mid-term elections in November
- The U.S. Treasury acknowledges losing \$61 billion (U.S.) on two high profile bailouts: \$30 billion on American International Group (AIG) and \$31 billion On General Motors (GM)
- The U.S. House of Representatives passes financial reform legislation which gives the federal government the power to seize and dissolve a failing financial institution, to force more derivative transactions through clearing houses and give investors a non-binding vote on directors' remuneration

FRIDAY, DECEMBER 11TH

- The Commerce Department reports U.S. retail sales rose 1.3% in November, marking the third increase in the past four months
- The Reuters/University of Michigan preliminary index of consumer sentiment rose to a reading of 73.4 in December from a level of 67.4 in November

- Statistics Canada reports its new housing price index rose by 0.3% in October, marking its fourth consecutive monthly increase

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