

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



Monday, December 28TH

Warren Buffet's Berkshire Hathaway Inc. reports 21,000 fewer employees than it had at the end of 2008, citing a business slowdown at the firm's manufacturing plants and retail units

MONDAY, DECEMBER 28TH

- U.S. retail sales rose by an estimated 3.6% this holiday season compared to 2008, boosted by online gift buying, last minute shopping and an extra shopping day
- The United States Treasury plans to auction \$118 billion (U.S.) of two-year, five-year and seven-year notes this week. The auctions consist of \$44 billion (U.S.) of 2-year notes today, \$42 billion (U.S.) of 5-year notes on Tuesday and \$32 billion (U.S.) of 7-year notes on Wednesday. At Long Wave Analytics, we note that since \$2 trillion (U.S.) of new Treasury supply will likely hit the bond market in 2010, it is no wonder that during the past few weeks, the yield on the benchmark 10-year Treasuries has risen by 55 basis points to 3.85%. Given the tenuous state of the U.S. economy, not only do we believe that the American 'AAA' sovereign debt rating is under pressure, but also, we insist that regarding the timing of any interest rate hikes in 2010, or 2011, the Fed will be a lagging, not a leading, indicator. In fact, we would not be surprised to witness the U.S. losing its 'AAA' rating prior to the end of President Obama's sole term in office.
- World Gold Council data reveals that amid growing investor concern about the weakness in the U.S. dollar and America's soaring debt burden, approximately \$28 billion (U.S.) of gold bullion has been purchased by central banks this year at an average price of \$978 (U.S.) per ounce.  
(See Winter Warning, October 19, 2009 – All That Glitters Is Gold)

TUESDAY, DECEMBER 29TH

- The Office of National Statistics reports that Britain's gross domestic product (GDP) rose by 1.7% annually over the past decade, representing the country's weakest period of economic expansion since the 1940s
- The U.S. Census Bureau reports state and local tax revenues declined by 7% in the 3rd. quarter of this year, compared with the same period in 2008. Sales tax revenues declined by 9% to \$70 billion (U.S.) while income tax revenues fell by 12% to \$58 billion (U.S.). Taken together, sales tax and income tax receivables comprise approximately, 50% of all state and local tax revenue.
- American investment giant Morgan Stanley is being sued by a Virgin Islands pension fund, alleging the bank defrauded investors by marketing \$1.2 billion (U.S.) of risky, mortgage-related notes sold in 2007, as part of a collateralized debt obligation (CDO) known as Libertas. The lawsuit accuses Morgan Stanley of collaborating with credit rating agencies Moody's Investors Service and Standard & Poors, to obtain a 'AAA' rating for the CDO which was backed by low quality assets. The pension fund asserts that Morgan Stanley knew the CDO's assets were far more risky than the ratings suggested and that the firm was "highly motivated to defraud investors" with pristine ratings because "it was short selling the securities, betting the entire investment which it was promoting would fail, which it did in 2008."

- The Conference Board reports the U.S. consumer confidence index rose to a reading of 52.9 in December, following a revised level of 50.6 in November, originally reported as 49.5
- The S&P/Case-Shiller home price index of 20 U.S. cities increased by 0.4% on a seasonally adjusted basis in October, following a 0.2% increase in September

#### WEDNESDAY, DECEMBER 30TH

- According to the Wall Street Journal, GMAC Financial Services is close to obtaining \$3.5 billion (U.S.) in government aid, in addition to the \$12.5 billion (U.S.) already received since December, 2008
- The Institute for Supply Management-Chicago Inc. reports its U.S. business barometer rose to a reading of 58.7 in December, following a level of 56.1 registered in November
- Toronto-based investment counselor Sprott Asset Management LP forecasts the Standard & Poors 500 Index will fall by 40% in 2010, from current level of 1,126.42 to the 660 range; i.e. below the 676.53 twelve-year low reached last March 9th. Chief executive Eric Sprott states investors have been too eager to interpret current data as signs of an economic recovery: "We're in a bear market that will last 15 or 20 years." At Long Wave Analytics, we believe Mr. Sprott could be too bullish, that's right, too bullish! (See Special Edition, November, 2009 – Dow 1,000 Is Not A Silly Number).
- On March 4, 2010, Canadian Finance Minister Jim Flaherty will present his government's budget for the fiscal year ending March 31, 2011. In the interim, Prime Minister Harper has suspended Parliament for the months of January and February.

#### THURSDAY, DECEMBER 31ST

- The Labor Department reports initial claims for state unemployment benefits declined by 22,000 to a seasonally adjusted 432,000 in the week ended December 26th. Continuing claims, which includes people who have been collecting state benefits for an extended period, fell by 57,000 to 498 million in the week ended December 19th. A simultaneous decline in initial and continuing claims at this point in the business cycle reflects, not only, a combination of fewer employee layoffs than earlier in the year, but also, an increasing number of people who have exhausted their unemployment benefits.
- RENFE, Spain's national rail operator has awarded Bombardier a \$405 million (U.S.) contract over 14 years for preventive and corrective maintenance of train power heads, power supply, signaling and propulsion systems and auxiliaries.

#### FRIDAY, JANUARY 1ST

(New Year's Day Holiday in Canada, the U.K. and the U.S.)

Ian A. Gordon, The Long Wave Analyst

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