

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



Monday, February 15TH

At a meeting of European Union (EU) finance ministers in Brussels, Economic and Monetary Affairs Commissioner Olli Rehn states Greece must do more to reduce its own budget deficit before any concrete rescue plan is established.

MONDAY, FEBRUARY 15TH

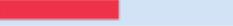
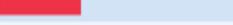
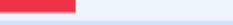
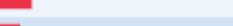
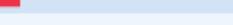
"If risks to Greece's deficit targets materialize, then Greece will announce additional steps by mid-March."

- Earl Jones is sentenced to 11 years in prison for swindling 158 people out of \$50 million (CAD). Mr. Jones' brother, Bevan, who lost close to \$1 million (CAD) in Earl's ponzi scheme remarked: "You work all your life and do everything right, then all of a sudden you have nothing. Everything we worked for and saved for is ruined. Earl didn't get enough time (behind bars). I have no use for the man. He can rot in hell." As desperate as this fraudulent situation was for many people, how terrible to be driven to such a state of hatred towards one's own brother.
- In an interview with the Sunday Times (London), former U.S. Treasury Secretary Hank Paulson criticized U.S. President Barack Obama's proposals to break up big American banks and restrict their proprietary trading activities. Mr. Paulson commented: "I do not believe that the idea of a ban on proprietary trading for one type of institution is going to solve the problem" or prevent a future financial crisis. "These large institutions (could) pose a dangerously large risk, but I would like to see regulators deal with it, not politicians coming up with a set of rules that will become outmoded and outdated over time."

- In eleven separate lawsuits, filed in late December in King County Superior Court in Washington State, the Federal Home Loan Bank of Seattle alleges it was misled by underwriters about the quality of \$4 billion (U.S.) of sub-prime mortgage-backed securities it purchased as investments between March 2006 and September 2007. The eleven lawsuits allege that the underlying mortgages didn't have proper documentation, or had statements in the documentation that "were untrue". According to a spokeswoman for the Seattle Bank, it had "a responsibility to its member shareholders to enforce its rights."

Seattle Suits

The Federal Home Loan Bank of Seattle is suing Wall Street firms to return mortgage-backed securities deals

	Certificates	Amount (millions)	
Bear Stearns*	10	\$719.36	
Barclays	4	661.85	
UBS	4	658.63	
Countrywide†	6	461.85	
Goldman Sachs	5	365.02	
Royal Bank of Scotland	4	360.01	
Credit Suisse	4	248.68	
Morgan Stanley	2	233.46	
Bank of America	2	135.50	
Merrill Lynch†	1	100.00	
Deutsche Bank	1	63.68	
TOTAL	43	4,008.05	

*Now a unit of J.P. Morgan Chase †Now a unit of Bank of America

Source: court filings

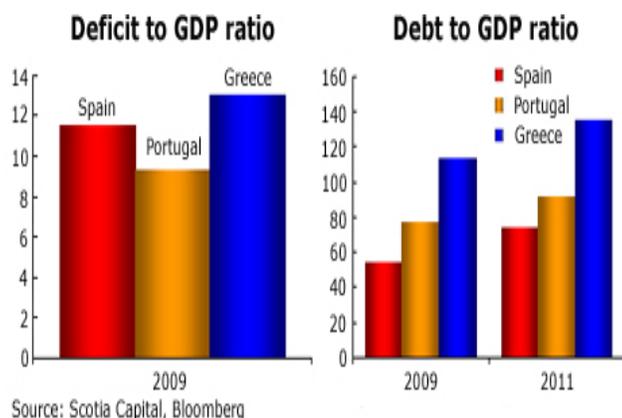
TUESDAY, FEBRUARY 16TH

- U.S. President Obama announces the White House is providing \$8 billion (U.S.) in loan guarantees towards construction of the first nuclear power plant in the U.S. in nearly three decades: "It's a plant which will create thousands of construction jobs over the near-term and 800 permanent jobs over the long-term. My budget proposes tripling the loan guarantees we provide to help finance safe, clean nuclear facilities and we'll continue to provide financing for clean energy projects here in Maryland and across America."
- Indianapolis-based Simon Property Inc. offers to buy General Growth Properties Inc. for more than \$10 billion (U.S.). General Growth filed the biggest real estate bankruptcy in American history in April 2009, citing debt of \$27 billion (U.S.).
- Bloomberg News reports U.S. President Barack Obama is set to announce Alan Simpson, a Republican and former U.S. Senator from Wyoming and Erskine Bowles, a moderate Democrat from North Carolina and former White House Chief of Staff under President Clinton, to co-chair an 18-member National Commission on Fiscal Responsibility and Reform. Like a fierce strain of influenza, political gridlock is rapidly spreading through the halls of Congress. Mr. Simpson has already criticized some Liberal Democrats' refusal to reduce entitlement benefits; as well as dismissed Republicans' anti-tax arguments that (budget) deficits could be controlled with spending cuts alone.
- Canadian Finance Minister Jim Flaherty announces tighter lending standards for mortgages, citing while the housing market is healthy and there is no solid evidence of a bubble, qualifying adjustments are needed to "help prevent negative trends from developing." One of the new rules requires all borrowers to meet standards for 5-year, fixed rate mortgages, regardless of whether they are seeking a loan with a lower rate and a shorter term.
- Austin, Texas-based grocery chain Whole Foods Market reports a net profit of \$49.7 million (U.S.) in its first fiscal quarter ended January 17th. compared to a profit of \$27.8 billion (U.S.) in the same period a year ago. Chief Executive John Mackey commented: "Given the strong sales momentum we are seeing, there are many reasons to be bullish about our future results. It is relatively early in our (economic) recovery, however, and there is still a lot of uncertainty regarding where the economy, the consumer and the competition go from here."
- The Federal Reserve Bank of New York reports its Empire State Manufacturing Index rose to a reading of 24.91 from a level of 15.92 in January
- The Office for National Statistics reports U.K. consumer price inflation rose by 3.5% in January on a year-over-year basis, prompting Bank of England Governor Mervyn King to write a letter to Chancellor of the Exchequer Alistair Darling, explaining why it is now over one full percentage point above the central bank's target rate. Simon Hayes, economist at Barclay's Capital, notes: "The key point is that the Monetary Policy Committee believes that the rise in the inflation rate will prove to be temporary, and therefore requires no policy response."
- Argentina's President Cristina Kirchner issues a decree requiring any boat carrying goods to Britain's Falkland, South Georgia and South Sandwich Islands, to obtain Argentina's approval before crossing any "waters under Argentina's jurisdiction." Great Britain has sovereignty claims to the Falkland Islands dating from 1690 and confirmed by the outcome of the 1982 Falklands War. Britain's plans to explore for oil and gas in the area have infuriated Argentine authorities who claim the Falklands and surrounding waters are under illegal U.K. occupation.

WEDNESDAY, FEBRUARY 17TH

- Deere & Co., one of the world's largest manufacturers of farm equipment, reports a profit of \$243 million (U.S.) in its first fiscal quarter ended January 31st., compared to a profit of \$204 million (U.S.) in the same period a year ago, citing benefits accruing from cost-cutting measures, improved pricing and currency gains
- According to minutes of January's meeting of the Federal Reserve Open Market Committee (FOMC), members generally concurred that the central bank should eventually, tighten monetary policy, but they disagreed how and when interest rates should be raised, as well as how the balance sheet, currently at \$2.2 billion (U.S.), should be reduced
- Spain launches a new issue of 5 billion euro (\$6.89 billion U.S.) 15-year bonds, carrying a coupon of 4.65% and priced at 99.831 (a premium of about 13 basis points over outstanding issues) and oversubscribed by more than double

- According to the New York Times, in 2001, just after Greece was admitted to Europe's monetary union (EMU), Goldman Sachs helped the Greek Government privately borrow billions of euros disguised as a currency swap, rather than a bond issue, enabling Athens to meet Europe's deficit rules, while continuing to spend beyond its means. According to the European Commission (EC), officials from Eurostat, the EU's statistical agency, met Greek Government officials in Athens in September, 2008 to discuss whether Greece was using currency or interest rate swaps to reduce its budget deficit artificially. The EC's spokesman for economic issues, Amadeu Altafaj, recounted: "There was a visit in September, 2008 and the Greek Government told Eurostat that they don't use any of these complex products."



- Eight American states have been given failing grades for their pension management under a new grading system developed by the Pew Center on the States, which uncovered a \$1 trillion (U.S.) total of unfunded pension liabilities. The Pew Center announced that Alaska, Colorado, Illinois, Kansas, Kentucky, Maryland, New Jersey and Oklahoma, had in essence, failed their new test because they made no meaningful progress on keeping their retiree benefit plans sound. Of this group, Illinois is the worst case carrying \$54 billion (U.S.) of unfunded pension liabilities. Susan K. Urhan, managing director of the Pew Center commented: "To a significant degree, the \$1 trillion gap reflects states' own policy choices and lack of discipline."
- In a speech at the Pew-Peterson Commission on Budget Reform, Thomas Hoenig, President of the Federal Reserve Bank of Kansas City, warns the U.S. must fix its growing debt problems, or risk a new financial crisis. "Stunning" deficit projections are putting political pressure on the Fed and infringing on the central bank's ability to fulfill its goals of maintaining price stability and long-term economic growth.

- The Commerce Department reports U.S. housing starts rose by 2.8% in January to an annual rate of 591,000. Separately, industrial production rose by 0.9% in January and capacity utilization increased to 72.6% in January from 71.9% in December.
- The U.S. Federal Trade Commission announces civil lawsuits against seven fraudulent job placement agencies and work-at-home schemes

THURSDAY, FEBRUARY 18TH

- The U.S. Federal Reserve Board raises the discount rate from 0.5% to 0.75%. In a statement, the Fed announced the move is "intended as a further normalization of its lending facilities and is not expected to lead to tighter financial conditions for households and businesses. It should not be viewed as any change in its outlook for the economy or, for monetary policy.
- Greece's Finance Ministry announces Petros Christodoulou, general manager of treasury and global markets at the National Bank of Greece SA, will replace Spyros Papanicolaou, as head of the Athens-based Public Debt Management Agency.
- Canada's annual inflation rate rose to 1.9% in January
- Toronto-based Barrick Gold posts a profit of \$215 million (CAD) in the 4th. quarter, compared to a loss of \$468 million (CAD) in the same quarter of 2008

FRIDAY, FEBRUARY 19TH

- The Labor Department reports the U.S. core consumer price index (ex-food and energy) declined by 0.1% in January, for the first time since 1982. However, when energy and food costs are included, consumer prices rose by 0.2% overall.
- Speaking to the Las Vegas Chamber of Commerce, U.S. President Barack Obama announces a \$1.5 billion (U.S.) financing plan to assist struggling homeowners in Nevada, California, Arizona, Michigan and Florida. These states have been among the hardest hit by residential foreclosures with home values declining by more than 20% over the past two years. This new initiative will be financed through the Federal Government's Troubled Asset Relief Program (TARP).

- The U.K. Government reports it borrowed 4.3 billion pounds more than it received in taxes in January, the first time this has occurred during this month. Chief European economist for Capital Economics commented: “Extrapolating the trend forward now points to a full-year borrowing figure of about 180 billion pounds, some 10 billion pounds higher than the Chancellor’s Pre-Budget Report forecast of 170 billion pounds on this borrowing measure. This would be the equivalent of 12.8% of GDP, comparable to Greece’s 2009 deficit.”
- In an interview with CNBC, Peter Orszag, Director of the White House Office of Management and Budget, warns that President Barack Obama’s National Commission on Fiscal Responsibility and Reform will consider all options to reduce the government’s ballooning deficit, including cutting spending in areas currently protected by the administration’s formal budget proposal, “or raising taxes for those earning less than \$250,000 (U.S.) a year.”

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“Those who cannot remember the past are condemned to repeat it.” Santayana