

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



Monday, March 8TH

The Canada Mortgage and Housing Corp. reports housing starts increased to 196,700 units on a seasonally adjusted basis in February from 185,400 units in January

MONDAY, MARCH 8TH

- In a memorandum of understanding (MOU), China's State Grid International Development Ltd., strikes a \$1 billion (CAD) agreement with Vancouver-based copper producer Quadra Mining Ltd. for its mining assets in Chile and a 10% ownership stake in the company
- The Institute for Supply Management (ISM), a U.S. industry trade group of purchasing managers, reports its manufacturing index declined to a reading of 56.5 in February from a level of 58.4 in January
- Moody's Investors Service warns the termination of the British Government's bank bailout packages could initiate debt rating downgrades for some U.K. banks. In a statement, Moody's declared: "As the financial sector slowly emerges from this recent (credit) crisis, our assessment of the probability of the (U.K.) government providing support (to British banks) will revert back to a case-by-case assessment of the impact of each bank's hypothetical failure of financial stability. Absent the benefit of the assumed government backstop, some weaker U.K. banks could see their (debt) ratings lowered in coming years."
- Germany's economics ministry reports the country's industrial production rose by a seasonally adjusted 0.6% in January from a revised 1% decline in December, citing a strong energy sector and a growing output of manufactured goods

- The British Retail Consortium reports same-store sales rose by 2.2% in February, compared with a 0.7% decline in January. Total retail sales, which include new stores, rose by 4.5% in February, following a 1.2% increase in January.

TUESDAY, MARCH 9TH

- The Bank of Nova Scotia reports a first fiscal quarter profit of \$988 million (CAD), up 17% from the same period a year ago. Scotiabank Chief Executive Officer Rick Waugh cautions: "We are still in the early days of the (economic) recovery. Provisions for credit losses remain within our expectations for this stage of the credit cycle and there is evidence of stabilization as demonstrated by the decline in provisions (for loan losses) from the previous quarter."
- Brian Coulton, manager of Fitch Ratings sovereign credits, warns that Britain risks a loss of investor confidence and a possible downgrade of its 'AAA' debt rating, unless it announces credible austerity measures to cut its deficit. Mr. Coulton notes: "The U.K. has seen the most rapid rise in the ratio of public debt to GDP of any 'AAA' rated country, but is courting fate with its leisurely plan to halve the deficit by the middle of the decade. It is frankly too slow, it is a pedestrian pace. Why Britain thinks it has more time than other countries, we're not sure. This needs to be reoriented."

- Chevron, the second largest U.S. oil producer, announces 2,000 job layoffs in order to reduce costs, improve efficiency and simplify its organizational structure
- Euro zone countries are negotiating the establishment of a European Monetary Fund, whose purpose would be to reduce economic instability among euro zone members and to bail out any member states in danger of defaulting on their debts
- As is the case for many American states, including California and Illinois, the State of New York faces many difficult choices as it attempts to reduce its \$9.2 billion (U.S.) deficit; with such measures as unforced, unpaid holidays for state workers and issuing IOUs which are being considered. At a recent meeting in Brooklyn, New York State Governor David Paterson stated: "What I came here to tell you is that we are crossing that Rubicon between recession and something else far worse, if my colleagues in the legislature and I can't close our \$19.2 billion (U.S.) deficit."

WEDNESDAY, MARCH 10TH

- According to the Treasury Department, the U.S. budget deficit widened to a record \$221 billion (U.S.) in February, compared with a shortfall of \$194 billion (U.S.) in February, 2009 as the government increased spending in a further attempt to revive the U.S. economy. Ergo, 5 months into the 2010 fiscal year ending September 30th., the U.S. budget deficit is climbing at a pace to exceed \$1.56 trillion (U.S.), compared with a record \$1.4 trillion (U.S.) in fiscal 2009.
- The U.S. Labor Department reports the unemployment rate rose in 30 American states in January, citing jobs remain scarce in most regions of the country. Michigan's unemployment rate is still the nation's highest at 14.3%, followed by Nevada at 13%; Rhode Island at 12.7%; South Carolina at 12.6%; California at 12.5%; Florida at 11.9%; North Carolina at 11.1% and Georgia at 10.4% round out the top eight.
- The Portuguese Institute for Public Credit Management auctions a 990 million euro (\$1.3 billion U.S.) 11-year bond issue at an average yield of 4.171%, representing a yield spread of 113 basis points over comparable 10-year German bunds. Alberto Soares, managing director, stated: "The (bond) auction went very well with strong demand as a result of some stability in the markets, and was also favoured by recent news, like the government's long-term plan to cut the budget deficit."

THURSDAY, MARCH 11TH

- The Labor Department reports initial claims for state unemployment benefits declined by 6,000 to a seasonally adjusted 462,000 from a revised 468,000 in the week ended March 6th. Meanwhile, continuing claims increased by 37,000 to a seasonally adjusted 4.56 million in the week ended February 27th.
- The Commerce Department reports the U.S. trade deficit declined by \$2.6 billion (U.S.) in January to \$37.3 billion (U.S.) from a revised \$39.9 billion (U.S.) in December, on reduced demand for foreign oil and lower imports of automobiles and commercial aircraft
- Fitch Ratings confirms the 'AAA' credit rating, with a "stable" outlook, for the Municipal Finance Authority of British Columbia, which borrows funds on behalf of municipal and local governments located in the province, citing its conservative borrowing patterns and the "general health" of the provincial economy
- The Province of Ontario launches a \$600 million (CAD) 10-year bond issue with a 4.2% coupon and priced to yield 60 basis points over comparable Government of Canada bonds
- Irvine, California-based Realty Trac Inc. reports a total of 308,524 properties in the U.S. received a notice of default, auction or seizure in February, as residential foreclosure filings increased for the 50th. consecutive month and exceeded 300,000 for the 12th. consecutive month. According to the U.S. Treasury Department, the Obama administration's main effort to keep people in their homes resulted in more than 830,000 trial loan modifications for delinquent borrowers through January. James Saccacio, Realty Trac's Chief Executive Officer, commented: "This leveling of the foreclosure trend is not necessarily evidence that fewer homeowners are in distress or are in foreclosure, but rather that foreclosure prevention programs, legislation and other processing delays are, in effect, capping monthly foreclosure activity."
- Statistics Canada reports the country's trade surplus increased to \$799 million (CAD) in January from \$75 million (CAD) in December, citing a higher level of exports to OECD countries and Japan, but moderately lower exports to the United States
- German industrial powerhouse Siemens AG announces 550 job layoffs due to the closing of its Fossil Power Generation division, a gas turbine manufacturing plant, in Hamilton, Ontario. Siemens stated that it is consolidating all of its North American production of 60-hertz gas turbines, used by customers to generate electricity, to a plant in Charlotte, North Carolina.

- In a \$7 billion (U.S.) transaction, Oklahoma City-based Devon Energy Corp. is selling its international and offshore oil assets to BP PLC, while spending \$500 million (U.S.) to buy a 50% stake in the long-dormant Kirby oil sands project in Alberta, which is deemed to contain as much as 1.5 billion barrels of bitumen. David Hager, Devon's vice president of exploration and production, commented: "Given our extensive knowledge of the area and our view of the potential of the Kirby leases, it's an asset in which we've been interested for some time. So, we view this as an exciting opportunity."
- Kevin Page, Canadian Parliamentary Budget Officer, warns that Finance Minister Flaherty's projections in his recent budget for fiscal 2011, fall about \$10 billion (CAD) short of balancing the books by 2015. Mr. Page elaborated that Mr. Flaherty's assumptions were not "a prudent basis for fiscal planning," noting that the Minister had failed to build a cushion for the unexpected. Bravely spoken! (See also The Week That Was – Friday, March 5, 2010)
- Vancouver-based Goldcorp Inc. reports its fourth fiscal quarter adjusted profit increased to \$182.7 million (U.S.) from \$84.4 million (U.S.) a year ago, citing sharply higher prices for gold, silver and copper.
- Statistics Canada reports the new Housing Price Index rose by 0.4% in January

FRIDAY, MARCH 12TH

- In a 2,200 page report, Anton Valukas, court-appointed examiner for bankrupt financial giant Lehman Bros., concludes while Lehman's directors at the time of the collapse weren't necessarily responsible, former chief executive Dick Fuld; former chief financial officers Chris O'Meara, Erin Callan, and Ian Lowitt; as well as the firm's auditors Ernst and Young, could face legal claims for negligence or breach of duty. Moreover, according to the report, JP Morgan Chase & Co. and Citigroup Inc. aided in the failure of Lehman Bros. by demanding more collateral and altering guarantee agreements.
- According to the Wall Street Journal, U.S. President Barack Obama plans to nominate former FOMC member and current President of the Federal Reserve Bank of San Francisco, Janet Yellen, as Vice Chairman of the Federal Reserve Board, replacing Donald Kohn whose term expires in June. The Journal reports that Ms. Yellen is one of the more dovish policy makers among the Fed's 12 regional bank presidents and has been a strong supporter of the policies of Fed Chairman Ben Bernanke.
- The Reuters/University of Michigan preliminary index of U.S. consumer confidence fell to a reading of 72.5 in March from a level of 73.6 in February, citing American consumers' discouragement with the labor market
- Statistics Canada reports the country's unemployment rate fell slightly to 8.2% in February from 8.3% in January, citing the Canadian economy created 20,900 jobs amid significant gains in full-time employment. As a result, the Canadian dollar hits a level of 98.32 cents (U.S.), its highest level since July, 2008
- In a bid to lure back oil and gas investment, the Province of Alberta is rolling back the energy royalty rates which it introduced on January 1, 2009. The Province will lower its top royalty rate on natural gas from 50% to 36%, while the highest rate for non-oil sands crude production will decline from 50% to 40%. Andrew Wiswell, Chief Executive Officer of NAL Oil and Gas Trust and is also Chair of the Canadian Association of Petroleum Producers, commented: "We're back in terms of working together to figure out what works best, not only, for the (energy) industry, but also, for (related business) activity and jobs for Albertans."
- Wall Street investment firm Goldman Sachs issues a court challenge to Shaw Communications over the cable operator's Ontario Superior Court-supervised purchase of insolvent broadcaster CanWest Media. Goldman, which is seeking leave to appeal, observes: "the court-supervised sale of CanWest reflects a remarkable abuse" of the (Canadian) bankruptcy protection process and "total failure" of CanWest's corporate governance. Goldman's move comes one week after the judge scolded the investment firm for trying to disrupt the sale process with an eleventh hour bid for CanWest. Nevertheless, Goldman warns: "Without (Ontario) Court of Appeal intervention, this matter will continue down a path of acrimonious and time-consuming litigation in which (Goldman) will ultimately prevail." Condemnation, threats and ultimatums! Once again, the investment community bears witness to Goldman Sachs "doing God's work." Hallelujah! (See also Winter Warning, February 15, 2010 – For The Love of Money)
- Deerfield, Illinois-based CF Industries buys Sioux City, Iowa-based Terra Industries for \$4.7 billion (U.S.). Stephen Wilson, CF Chief Executive Officer, commented: "The combination of CF and Terra creates a strong leader in the global fertilizer industry with superior assets, enabling annual cost synergies approaching \$135 million (U.S.)."

- Hydro-Quebec has signed a memorandum of understanding (MOU) with the State of Vermont wherein Quebec would provide a constant flow of 225 megawatts of electricity for \$1.5 billion (CAD) from 2012 to 2028. Quebec Premier Jean Charest commented: "This agreement is the foundation of what we believe will be our ability to sign and negotiate long-term (power) contracts with other states" in New England; as well as New York.
- The Commerce Department reports U.S. retail sales rose by 0.3% in February, however, figures for January and December were revised downward

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