Monday August 16th, 2010

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, August 16TH

The Federal Reserve Bank of New York's Empire State factory index declined to a reading of minus 2.7 in August from a level of 10.1 in July

MONDAY, AUGUST 16TH

- The National Association of Home Builders/Wells Fargo Housing Market Index declines by 1 point in August to a reading of 13, a 17-month low. NAHB Chairman Bob Jones commented: "Builders are expressing the same concerns that they are hearing from consumers right now, particularly, the sense that the overall (U.S.) economy and job market aren't gaining any traction. Meanwhile, many continue to report that problems with inaccurate appraisals, competition from the large number of distressed properties on the market and tight consumer lending conditions are causing them to lose potential sales."

- The Japanese Cabinet Office announces the country's gross domestic product (GDP) rose by an annualized pace of 0.4% in real terms in the April-June quarter. China has now surpassed Japan as the world's second largest economy, since Japan's nominal GDP totaled $1.288 trillion (U.S.), less than China's $1.337 trillion (U.S.)

- The U.S. Department of Justice fines Barclays $298 million (U.S.) for breaking sanctions placed against some of the world's most brutal regimes. Reaching a settlement with U.S. prosecutors enables the Bank to close the door on an investigation into its business dealings with individuals linked to Cuba, Iran, Libya, Myanmar and Sudan

- Eurostat reports the eurozone annual rate of inflation increased to 1.7% in July from 1.4% in June, citing higher food and energy prices

- The Treasury Department reports net foreign purchases of U.S. long term notes and bonds totaled $44.4 billion (U.S.) in June, compared with $35.3 billion (U.S.) in May

- Moody's Investors Service issues $500 million (U.S.) of 10-year notes to yield 5.582%, about a 300 basis point yield spread over comparable U.S. Treasurys and rated 'BBB' (High) by Standard and Poors (S&P). The yield spread is about double that of other similarly rated corporate issuers; since additional risk is associated with the uncertainties facing the credit rating industry in the aftermath of the credit crisis.

- In a Toronto Globe & Mail article, Gluskin Sheff economist David Rosenberg comments: "Deflation risks are prevailing, along with a growing acknowledgement about the lack of sustainability in the nascent (U.S.) economic recovery. This sounds a bit dire, but little has changed from where we were a year ago. We had a tremendous short-covering and government-induced equity market rally on our hands and it's really nothing more than a commentary on human nature that so many people rely upon what the stock market is doing at any given moment, to base their conclusions on what the economic landscape is going to look like. So, we had a huge bounce off the lows – but we had a similar bounce off the lows in 1930. The equity market was up something like 50% in the opening months of 1930. While I am sure there was euphoria at the time that the worst of the depression and the contraction in credit was over, it's interesting today to see that nobody talks about the great run-up of 1930."

See also, Winter Warning, It's The Debt, Stupid – January 11, 2010

"What the (stock market) bulls still refuse to see is that we are in an entirely new paradigm, and that there is simply too much debt overhanging the U.S. household balance sheet, the largest balance sheet on the planet. Despite the deleveraging efforts to date, the process of balance sheet repair is still in its infancy. Consider the facts: the U.S. household debt–income ratio peaked in the first quarter of 2008 at 136%. The ratio currently sits at 126%, but the pre—2001 norm was 70%. To get down to this normalized ratio again, debt would have to be reduced by about $6 trillion (U.S.). So far, nearly $600 billion (U.S.) of bad household debt has been destroyed. We have much further to go in this deleveraging phase."
See also, Winter Warning, If You Listen Very Intently, You Can Hear the Interest Accrue – March 30, 2009

TUESDAY, AUGUST 17TH

- As expected, the U.S. Federal Reserve purchases $2.551 billion (U.S.) of Treasury issues maturing between August, 2014 and February, 2016 with the proceeds of coupon payments which came due on August 15th. – keeping the Fed's balance sheet constant at $2.3 trillion (U.S.)

- Statistics Canada reports constant-dollar manufacturing sales rose by 0.7% to $41.7 billion (CAD) in June, as sales increases were reported in 9 of 21 industries

- The U.S. Federal Reserve reports total output by the nation's factories, mines and utilities rose by 1.0% in July, following a decline of 0.1% in June

- The German ZEW economics research institute reports its economic expectations index declined to a reading of 14.0 in August from a level of 21.2 in July, citing: "The current decrease of the economic sentiment indicates that the enormous (economic) growth observed in the 2nd. quarter is unlikely to continue."

- According to Bloomberg News, China reduced its holdings of long-term U.S. Treasurys by the greatest amount ever during June, as bond yields declined amid reports of slower U.S. growth of its gross domestic product (GDP). Also, through the first half of the year, China more than doubled its holdings of South Korean Government bonds to nearly 4 trillion yuan ($3.4 billion U.S.).

- In its Quarterly Sovereign Monitor, Moody's Investors Service warns while: "Genuinely adverse debt dynamics were only expected to materialize in 15 to 20 years, the (recent Greek sovereign debt) crisis has 'fast-forwarded' history, eroding all the time available to adjust." If U.S. gross domestic product (GDP) remains moribund or declines by 2013, Moody's fears that total interest payments on U.S. Treasury notes and bonds will exceed 14% of government tax revenues. "The burden of proof now falls on governments and those that fail to demonstrate the level of social cohesion required to stabilize debt levels will lose their 'AAA' rating. The U.S., U.K., Germany, France and Spain are all at risk of an interest rate shock," either because they must roll over a mountain range of maturing short-term debt issues (U.S., France, Spain) and/or because their deficits are so large. Moody's also warns that U.S. states that delay pension reform risk a downward spiral. "While the current stock of debt is large, it is dwarfed by the accumulation of future liabilities if (government) policies do not change."
  See also Winter Warning, The Die Is Cast and The Flight to Folly – September 22, 2008

WEDNESDAY, AUGUST 18TH

- The Greater Toronto Real Estate Board reports sales declined in metro Toronto by 29% during the first two weeks of August compared to the same period a year ago

- The Province of British Columbia launches a $500 million (CAD) issue of 10-year bonds to yield 3.7%, which is 77 basis points over comparable Government of Canada bonds

- The State of New Jersey, having been accused by the Securities and Exchange Commission (SEC) of misleading investors regarding the health of its two largest pension funds while issuing billions of dollars in bonds between 2001 and 2007, has settled the case without admitting or denying any wrongdoing. The SEC is currently conducting several investigations regarding disclosures other states made about their weakened finances.

- The Bank of England's Monetary Policy Committee voted to keep its key lending rate unchanged at 0.5% at its August 4-5th. meetings

THURSDAY, AUGUST 19TH

- The Labor Department reports U.S. initial claims for state unemployment benefits increased by 12,000 to 500,000 in the week ended August 14th. while continuing claims declined by 1,500 to 4.53 million in the week ended August 7th.

- The Conference Board reports its index of U.S. leading economic indicators rose by 0.1% in July, following a revised decline of 0.3% in June

- In its semi-annual report, the U.S. Congressional Budget Office (CBO) forecasts the U.S. Government's budget deficit will be $1.066 trillion (U.S.) for the fiscal year ending September 30, 2011; upwardly revised from its $996 billion (U.S.) forecast made last March. The non-partisan agency stated the federal deficit will be 7% of the nation's gross domestic product in 2011. The CBO also stated the federal deficit for the current fiscal year ending September 30th. will be $1.34 trillion (U.S.), or 9.1% of GDP – exceeded only by last year's 9.9% of GDP.

- In its August monthly report, Germany's Bundesbank forecasts the country's economy will generate GDP growth of 3% in 2010, upwardly revised from its previous GDP growth estimate of 1.9%

- Santa Clara, California-based Intel Corp., the world's largest chipmaker, announces a $7.68 billion (U.S.) takeover of computer security provider McAfee Inc.

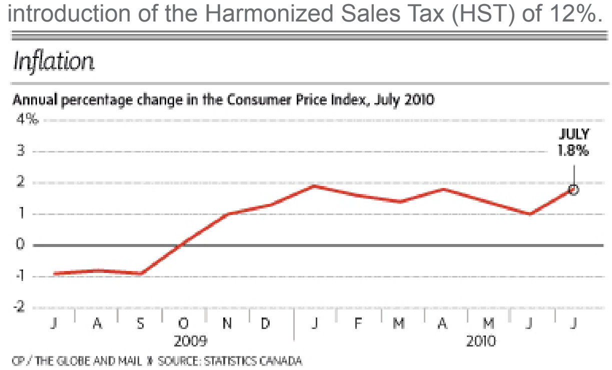
- The European Commission (EC) approves the next 9 billion euro tranche of loans for Greece; however the underlying economy continues to deteriorate as Greek banks endured a record 8% loss of their entire deposit base in the first five months of 2010, according to a report by the Hong Kong and Shanghai Bank (HSBC). Indeed, the Athens Chamber of Commerce warned earlier this week that its members are in "dire straits" with many companies running down bank balances to make ends meet. Greece, notwithstanding, banks in Portugal, Spain and Ireland have collectively borrowed 387 billion euros from the European Central Bank (ECB) to date.

- The Philadelphia Fed index of business activity declines to a reading of minus 7.7 in August from a level of 5.1 in July

- California Governor Arnold Schwarzenegger announces 150,000 State government workers must begin taking three unpaid days off each month commencing August 20th., following a court ruling lifting an injunction temporarily blocking the furloughs

FRIDAY, AUGUST 20TH

- Statistics Canada reports the country's consumer price index (CPI) rose by 0.5% in July, while the core rate (ex-food and energy) declined by 0.1%. The annual inflation rate rose to 1.8% in July from 1.00% in June due to higher energy costs and the introduction of the Harmonized Sales Tax (HST) of 12%.



- California's controller, John Chiang, warns the State will be forced to issue IOUs to public workers and other creditors in lieu of cash within the next two months, if a budget stalemate between Governor Arnold Schwarzenegger and the State legislature cannot be broken

CLOSING LEVELS FOR FRIDAY AUGUST 13th.		WEEKLY CHANGE
Dow Jones Industrial Average	10,213.60	– 89.60 points
Spot Gold Bullion (December)	$1,229.70 (U.S.)	+ $12.30 per ounce
S&P/TSX	11,722.10	+ 193.80 points

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