

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



Monday, September 27TH

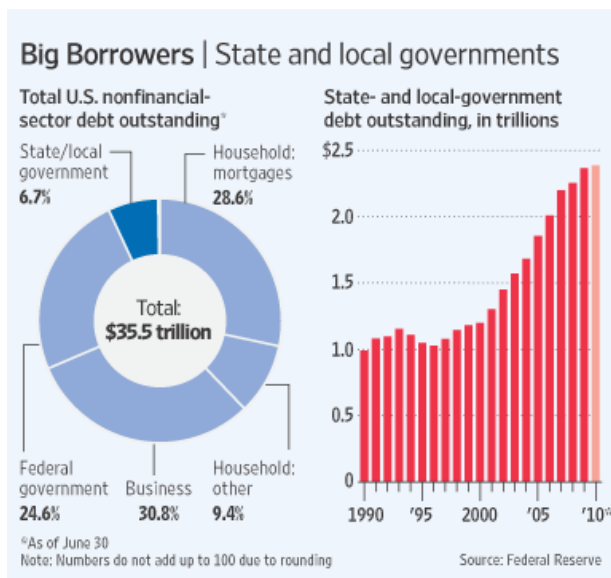
The Financial Stability Board (FSB) of the Bank for International Settlements (BIS) warns: “The potential for adverse feedback loops between economies, fragile banking systems and fiscal strains remain significant.”

MONDAY, SEPTEMBER 27TH

Following a Paris meeting to review recent progress on financial regulation reform, the FSB also warned that these risks could be amplified by weakening economic conditions because “the recent improvement in (equity) markets is mostly due to policy actions.”

- Connecticut Attorney General Richard Blumenthal is demanding that GMAC Mortgage, a unit of Ally Financial Inc. (majority-owned by the U.S. Government) freeze all home loan foreclosure documents in the State. Mr. Blumenthal claims: “The bank’s apparent failure to follow basic legal procedure – a potential fraud on the court – is appalling and unacceptable. Our investigation will enable strong legal action against GMAC/Ally, if warranted by the facts and the law. I will fight to ensure the banks comply with clear legal requirements that protect homeowners from unfair foreclosures of their homes.”  
Basically, here is the State of Connecticut alleging the use of “defective foreclosure documents” in the State by a U.S. Government-owned company. How can things possibly get more convoluted than that in America? But wait! What about those General Motors (61% owned by the U.S. Government) political campaign contributions discovered last week?
- Wal-Mart Stores announces plans to enter the African market with a preliminary offer to purchase the Johannesburg-based retailer Massmart Holdings for \$4.2 billion (U.S.). While Wal-Mart operates in 14 countries in addition to the United States, it has no stores yet on the African continent.

- In a Wall Street Journal article entitled “Local Debts Defy Easy Solution,” reporter David Wessel opines: “Bankruptcy has become an acceptable, and in many cases, successful way for debt-burdened companies and consumers to get a fresh start. More than 1.6 million American households are expected to declare it this year. But reneging on debts remains a rarity among U.S. state and municipal governments. Fewer than 250 of the nation’s 89,000 local government units have filed for bankruptcy since 1980.” According to rating agencies and bankruptcy lawyers, a flood of state and municipal bankruptcies and defaults is likely to unfold “because Chapter 9 of the bankruptcy code, the one that applies to local governments, is so unwieldy. There is no obvious mechanism for state and local governments to resolve the coming collision between competing claims of taxpayers, retirees (both current and future) and bondholders. According to Federal Reserve data, state and local governments have borrowed \$2.4 trillion (U.S.) as of mid-2010 – a 35% increase in the last 5 years. To avoid bankruptcy, state and local governments need an alternative that is less unappealing.”
- Europe’s central banks have all but halted sales of their gold reserves, ending a string of sizeable annual sales over more than a decade. The Central banks of the euro zone, plus Sweden and Switzerland are bound by the Central bank Gold Agreement (CBGA) which caps their collective sales. In the CBGA’s year to September, which ended yesterday, the signatories sold 6.2 million tonnes; the lowest since the agreement was signed in 1999 and well below the peak of 497 tonnes in 2004-05.



- In a Sao Paulo press conference, Guido Mantega, Brazil's finance minister, commented: "We're in the midst of an international currency war, a general weakening of currency. This threatens us because it takes away our competitiveness." Mr. Mantega's comments follow a series of recent currency interventions by the central banks of Japan, South Korea and Taiwan, in an effort to lower the value of their currencies in order to bolster exports and increase their gross domestic product (GDP).

#### TUESDAY, SEPTEMBER 28TH

- The Bank of Japan's quarterly "tankan" survey of business sentiment revealed that the main index for large manufacturers rose to a reading of 8 from 1 in the April – June quarter; but companies fear the improvement is temporary, citing slower global economic growth and a persistently strong yen have hurt exports to foreign markets
- The New York-based Conference Board's consumer confidence index declined to a reading of 48.5 in September from a level of 53.2 in August, citing more people surveyed expect business conditions will worsen within the next six months
- The market research group GfK's indicator of German household sentiment published for October, rose to a reading of 4.9 from a level of 4.3 in September, citing: "Consumers currently expect the economic upturn to continue in the coming months. This is demonstrated by the sharp rise in economic expectations over the last three months." GfK surveys about 2,000 consumers in Germany for its poll, which is conducted on behalf of the European Commission (EC).

- The S&P/Case-Shiller 20-city U.S. home price index rose by 0.6% in July from the June level and up 3.2% from the same period a year ago. The report also showed uneven trends across the country, citing 10 of the 20 markets surveyed reported price declines from a year ago; double the number reporting price declines in June.
- As part of its broad data release from the American Community Survey, the Census Bureau has also issued a report on poverty rates by state. As previously reported, 14.3% of the American population had income in 2009 that was below the official poverty threshold, compared with 13.2% in 2008. While the poverty rate rose in 31 states in 2009, the rate was highest in Mississippi at 21.9% and lowest in New Hampshire at 8.5%. Across the country, the number of Americans who were in extreme poverty – those who earned less than 50% of the poverty threshold – increased to 6.3% in 2009 from 5.6% in 2008. The percentage of people living in extreme poverty was the lowest in Wyoming at 3.3% and highest in the District of Columbia at 10.7%.

#### WEDNESDAY, SEPTEMBER 29TH

- The Ottawa-based Conference Board of Canada reports its consumer confidence index declined to a reading of 78.1 in September from a level of 79.3 in August, citing: "Consumers have taken notice of the slowing pace of economic recovery"
- In its semi-annual global financial stability report, the International Monetary Fund (IMF) warns of over-reliance by investors on sovereign credit ratings, citing: "the credit rating agencies need to be more precise about the meaning of their sovereign rating categories."
- U.S. Senator Benjamin Cardin and Representative James McGovern have introduced a bill to Congress named the Justice for Sergei Magnitsky Act of 2010. The late Russian lawyer, who worked for London-based Hermitage Capital Management and uncovered a \$230 million (U.S.) fraud against the Russian taxpayer, was incarcerated in a squalid Moscow jail by police officers against whom he had testified and died a year later after being denied medical treatment. To Moscow's international embarrassment, the case has become a focal point for activists seeking to highlight state corruption. Last April, Mr. Cardin called for a U.S. visa ban on 60 individuals with alleged connections to the death and fraud. Among those listed were Russia's Deputy General Prosecutor, Viktor Grin; its Deputy Interior Minister, Alexei Alichin and Viktor Voronin, Chief of the economic espionage unit within the Federal Security Service (FSB) – the successor to the KGB.

For over 20 years, we have not been inclined to invest a plug nickle in Russia. Although the average World Trade Organization (WTO) accession period is five to seven years, Russia, which is the only major economy outside of the WTO, has been in negotiations for 17 years. We pose this question to U.S. President Obama: When you can plainly see what thieves and murderers lurk in high places within the Russian economic/political system, why would you be promoting and advocating Russian entry into the WTO? For the full story of Sergei Magnitsky, see Global Public Square website: Russia: Other Points of View: Response to Fareed Zakaria's GPS.

**THURSDAY, SEPTEMBER 30TH**

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by a total of 16,000 to a seasonally adjusted 453,000 in the week ended September 25th., while continuing claims fell by 83,000 to 4.46 million in the week ended September 18th.
- The Institute for Supply Management-Chicago Inc. business index rose to a reading of 60.4 in September from a level of 56.7 in August, as sub-indexes for production and new orders moved higher
- In a Bloomberg Television interview, American banking analyst Meredith Whitney forecasts the U.S. Government will face pressure to provide financial bailouts for many struggling states within the next 12 months. Ms. Whitney warns: "People will think the federal government will bail these states out, but it's going to be an incredibly divisive issue." Ms. Whitney's comments coincide with the release of her new 600 page report entitled "The Tragedy of the Commons" wherein she rates the financial health of the 15 largest U.S. states measured by their GDP. Ms. Whitney asserts: "The states represent the new systemic risk to financial markets. I see a lack of transparency and an abundance of complacency on behalf of investors and politicians, just as we saw before the banks imploded." See also: Winter Warning, December 1, 2008 – In One Hell of a State; and Winter Warning, June 8, 2009 – California – The Golden State at the Brink of Collapse; and Winter Warning, July 26, 2010 – In One Hell of a State (2)
- The Commerce Department reports a slight upward revision in the U.S. gross domestic product (GDP) from 1.6% to 1.7% in the second quarter. This final reading marks a sharp slowdown from the 3.7% growth rate registered in the first quarter; but does not alter the macro picture of a slowing economy since the end of last year.

- Ireland is preparing to take majority control of Allied Irish Banks Plc and inject additional cash into Anglo Irish Bank Corp., raising the cost of repairing the financial system to as much as 50 billion euros (\$68 billion U.S.). In a Dublin-Bloomberg Television interview, Ireland's Finance Minister Brian Lenihan commented: "The Irish banking system is at rock bottom today. It can only revive from now because it's recapitalized and reformed." The Minister rejected any speculation that Ireland will need outside financial assistance. See also: Winter Warning, April 13, 2009 – No Man Is an Island, Entire of Itself
- Statistics Canada reports the country's gross domestic product (GDP) contracted by 0.1% in July, citing factories, home builders and consumer activity all posted declines.

**FRIDAY, OCTOBER 1ST**

- The Tempe, Arizona-based Institute for Supply Management reports its index of factory activity declined to a reading of 54.4 in September from a level of 56.3 in August. During the current year, the index peaked at a reading of 60.4 in April.

**ISM manufacturing index**

Readings above 50 indicate expansion



- The Commerce Department reports U.S. consumer spending rose by 0.4% in August for a second consecutive month. Personal income rose by 0.5% in the month and while the largest advance this year, it was propelled by the resumption of extended and emergency unemployment benefits
- Ford Motor Canada reports vehicle sales increased by 63.7% to 26,453 in September, citing a 15.4% increase in automobile sales and an 81.2% increase in truck sales. David Mondragon, chief executive officer of Ford Motor Canada, commented: "We plan to carry this momentum forward, establishing a sustainable and profitable foot print for the future."

- United States Steel, locked in a legal battle with the Canadian Government, facing potential labour strife and battered by a continuing industry-wide slump, announces a temporary closing of operations at its Hamilton, Ontario plant. Trevor Harris, a U.S. Steel Canada spokesman commented: "We review and analyze market conditions on an ongoing basis and the impact they have on customer orders and we're idling the blast furnace and steel-making operations at Hamilton Works to stay in line with customer demand. There's no timeline to restart the facility." The ceasing of operations will not result in job layoffs; rather workers will be assigned to other tasks. There remain about 900 workers left at the mill, compared with 1,700 when the Pittsburgh-based giant took over Stelco Inc. in 2007.
- The Thomson Reuters/University of Michigan index of consumer sentiment declined to a reading of 68.2 in August from a level of 68.9 in July

CLOSING LEVELS FOR FRIDAY OCTOBER 1ST.

WEEKLY CHANGE

Dow Jones Industrial Average	10,829.68	+ 45.68 points
Spot Gold Bullion (December)	\$1,317.80 (U.S.)	+ \$19.70 per ounce
S&P/TSX Composite Index	12,363.08	+ 158.18 points

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