

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



Monday, October 11TH

Thanksgiving Day Holiday in Canada

Columbus Day Holiday in the United States

TUESDAY, OCTOBER 12TH

- Minutes of the Federal Open Market Committee (FOMC) meeting of September 21st. reveal that the U.S. Federal Reserve may soon embark on another round of U.S. Treasury purchases, called quantitative easing. The minutes stated: "Several members noted that unless the pace of economic recovery strengthened or underlying inflation moved back toward a level consistent with the FOMC's mandate, they would consider it appropriate to take action soon."
- The Cabinet Office reports Japanese core machinery orders rose by 10.1% month-over-month in August on a seasonally adjusted basis
- Attending Economics 21's Shadow Open Market Committee conference in New York, Germany's Bundesbank President Axel Weber urges the European Central Bank (ECB) to halt purchases of the sovereign debt of countries such as Greece and Ireland; deepening a rift within the central bank's board over the controversial decision
- The Thai cabinet imposes a 15% withholding tax on capital gains and interest payments for Thai government and state-owned company bonds, citing it will take strong measures to discourage inflows of money into the baht, which has recently soared to its highest level against the U.S. dollar since just prior to the Asian crisis of 1997-1998

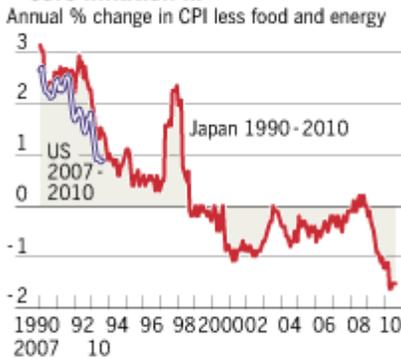
- China's customs bureau reports a \$16.9 billion (U.S.) trade surplus for September, as the country's quarterly trade surplus widened to \$65.6 billion (U.S.)
- According to a report co-authored by two U.S. university professors, Joshua Rauh and Robert Novy Marx, America's largest municipal pension plans are carrying a total unfunded liability of \$574 billion (U.S.) while unfunded pension promises made by the states could total as much as \$3 trillion (U.S.). The report is based upon an analysis of pension funds in 50 major American cities and counties that together account for 66% of the nation's 3 million local government employees. The report argues that cities routinely cling to unrealistic projected investment rates of return, in order to understate their pension liabilities.

WEDNESDAY, OCTOBER 13TH

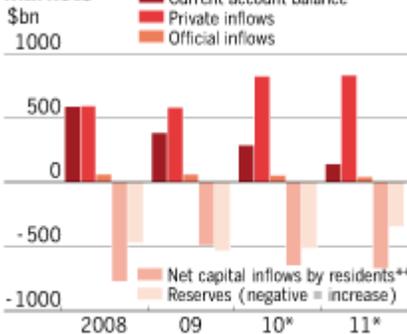
- Lloyd's Banking Group PLC announces 1,600 permanent job cuts in its group information-technology and operations department by 2012 – also cut, 1,150 temporary employees and contractors in the U.K. and 1,750 offshore employees
- The People's Bank of China reports the country's foreign exchange reserves rose by \$194 billion (U.S.) in the 3rd. quarter to a record \$2.65 trillion (U.S.)

- U.S. state attorneys general in all 50 states launch a joint investigation into the mortgage industry amid accusations that some banks used improper paperwork to evict homeowners from their residences during the ongoing foreclosure crisis. Lori Swanson, the Minnesota attorney general, commented: "We are in the fourth year of a housing and economic crisis that was caused by lax practices within the mortgage lending industry. The latest allegations of corner-cutting and slipshod paperwork are troubling, but perhaps not surprising."
- In an op-ed for the U.K. Telegraph, assistant editor Jeremy Warner asserts: "There's no political appetite or will in the U.S. for the long-term entitlement reform and tax increases necessary to bring the deficit under control. Nobody believes U.S. Treasury forecasts that public debt will be stabilized by 2014. Much more believable are International Monetary Fund (IMF) estimates which see U.S. gross debt rising to well in excess of 110% of GDP by 2015. The U.S. has no strategy for the jobless and no strategy for rolling back debt."

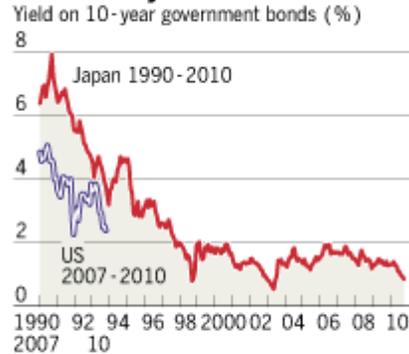
Japan in the 1990s and the US now – core inflation ...



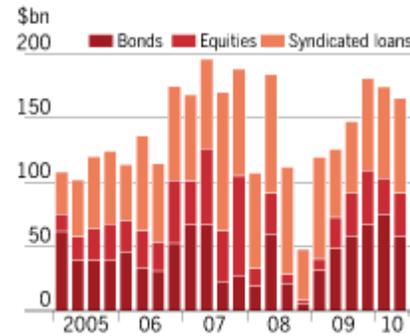
Balance of payments of emerging markets



... and bond yields



Emerging market issuance



*Forecasts **Residents' equity investment abroad and lending
 Sources: Thomson Reuters Datastream; Institute of International Finance; IMF

See also, Winter Warning, September 28, 2009 – The American Greenback Will Be Cast into the Hazard

THURSDAY, OCTOBER 14TH

- The Labor Department reports the U.S. producer price index rose by 0.4% in September, citing higher prices for food and fuel; while the core rate (ex-food and energy) rose by 0.1%
- The Commerce Department reports the U.S. trade deficit widened by 8.8% to \$46.3 billion (U.S.) in August, citing higher imports of semi-conductor equipment and automobiles; compared to a deficit of \$42.6 billion (U.S.) in July
- The Labor Department reports U.S. initial claims for state unemployment benefits increased by 13,000 to 462,000 in the week ended October 1st. while continuing claims declined by 112,000 to 4.399 million in the week ended September 25th.

- Statistics Canada reports the country's trade deficit narrowed to \$1.3 billion (CAD) in August from \$2.5 billion (CAD) in July, citing a decline in imports of automotive parts and industrial goods and materials; while exports increased due to higher demand for passenger vehicles mainly from the United States

FRIDAY, OCTOBER 15TH

- The U.S. Treasury Department reports the federal deficit amounted to \$1.29 trillion (U.S.) for the fiscal year ended September 30, 2010, compared to \$1.4 trillion (U.S.) in the previous fiscal year. At present, the U.S. national debt totals \$13.65 trillion and is growing at the rate of \$200 million per hour.
- In a prepared text at a Boston conference, Federal Reserve Chairman Ben Bernanke stated: "At current rates of inflation, the constraint imposed by the zero lower bound on nominal interest rates is too tight and the risk of deflation is higher than desirable. (Since) high unemployment is forecast to persist for some time, there would appear, all else being equal, to be a case for further (monetary stimulus) action." Chairman Bernanke seems to have taken the "art of Fed speak" to a new level, having learned well under former Fed Chairman Alan Greenspan.
- The U.S. Commerce Department reports retail sales rose by 0.6% in September compared to a 0.7% gain in August, citing higher sales of automobiles, electronics and appliances
- The U.S. Labor Department reports the consumer price index rose by 0.1% in September, while the core index (ex-food and energy) remained unchanged for the second consecutive month

- Former Countrywide Financial Chief Executive Officer Angelo Mozilo agrees to pay a record \$67.5 million (U.S.) to settle Securities and Exchange Commission (SEC) allegations that he misled investors. Mr. Mozilo will pay a \$22.5 million (U.S.) penalty and disgorge \$45 million (U.S.) in gains from the sale of Countrywide shares at inflated prices under the terms of a settlement disclosed in Los Angeles federal court. Mr. Mozilo's penalty is the largest ever to be paid by a senior executive of a publically traded company in an SEC settlement. Mazilo, who is also barred for life from serving as an officer or director of a public company, admitted no wrongdoing. Of course not!
- Statistics Canada reports the country's factory orders rose by 2% in August, citing increased sales of automobiles, gasoline and coal
- The U.S. Federal Deposit Insurance Corp. (FDIC) announces the closing of three banks in the mid-west, including Premier Bank of Jefferson City, Missouri; bringing the total number of American bank failures this year to 132
- The Los Angeles Department of Water and Power (DWP) reports it cannot afford retirement costs for 1,600 workers transferred from other city agencies to help the City avoid layoffs and furloughs. The transfers created a \$183 million (U.S.) pension burden for the DWP, whose board of directors voted in September to suspend full pension coverage for new employees hired by the DWP from other City departments. This week, the City Council voted unanimously to veto that decision. While budget woes could lead to future layoffs of City employees, Councilman Richard Alarcon comments: "The City needs the DWP to provide jobs for displaced workers." Only in America!

CLOSING LEVELS FOR FRIDAY OCTOBER 15TH.

WEEKLY CHANGE

| | | |
|------------------------------|-------------------|---------------------|
| Dow Jones Industrial Average | 11,062.78 | + 56.28 points |
| Spot Gold Bullion (December) | \$1,369.00 (U.S.) | + \$23.70 per ounce |
| S&P/TSX Composite Index | 12,609.10 | + 73.50 points |

Ian A. Gordon, The Long Wave Analyst www.longwavegroup.com

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