LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

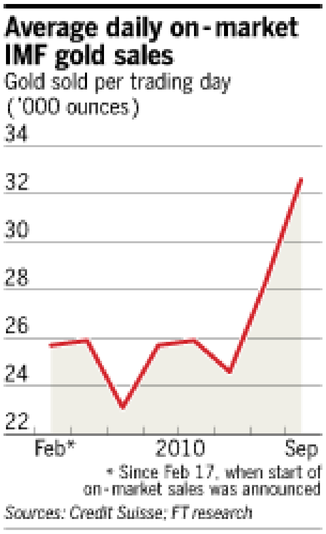
Monday, November 1st

The Commerce Department reports U.S. consumer spending rose at an annual rate of 0.2% in September, while incomes declined by 0.1% in the same period

MONDAY, NOVEMBER 1ST

- The Tempe, Arizona-based Institute for Supply Management's manufacturing index increased to a reading of 56.9 in October, following a level of 54.4 in September, citing rising demand from foreign markets, particularly China

- The International Monetary Fund (IMF) announces it has accelerated the pace of its gold sales and if they continue at their current rate, the Washington-based lender could complete its reserve reduction of 403.3 tonnes of bullion – 12.5% of its total reserves – by the end of the year



TUESDAY, NOVEMBER 2ND

- The Reserve Bank of Australia raises its benchmark lending rate by 25 basis points to 4.75%. Central bank Governor Glenn Stevens commented: "At today's meeting, the Board of Directors concluded that the balance of risks had shifted to the point where an early, modest tightening of monetary policy was prudent. Concerns about the possibility of a larger-than-expected slowing in Chinese growth have lessened recently, and most commodity prices have firmed after a fall earlier in the year. The prices most important to Australia remain at very high levels, with the result that the terms of trade are at their highest since the early 1950s."

- The U.S. Census Bureau reports the American home ownership rate remained unchanged at a 10-year low of 66.9% in the 3rd. quarter, citing bank acceleration of property seizures from owners who defaulted on their mortgages. Brian Bethune, an economist with IHS Global Insight in Lexington, Massachusetts, commented: "A lot of foreclosed homes are sitting on the market and demand for them is weak because of (the general state of) the economy."

- In an effort to slow down the rate of inflation, Reserve Bank of India Governor Duvvuri Subbarao announces a 25 basis point increase in the repurchase rate to 6.25% and the reverse repurchase rate by a similar margin to 5.25%

- Ford Motor Co. of Canada reports its vehicle sales rose by 8% to 19,664 in October compared to 18,201 a year earlier

- Newmont Mining, the world's second largest gold producer, posts a net profit of $537 million (U.S.) in the 3rd. quarter, spurred by record gold prices, compared with a profit of $388 million (U.S.) in the same period a year ago

- China Construction Bank Corp. plans to raise 61.62 billion yuan ($9.2 billion U.S.) by means of a rights issue in Shanghai and Hong Kong, to replenish its capital base and meet more stringent capital requirements

- The State of Indiana plans to increase security at 36 state unemployment offices with armed security guards to improve safety and make branch security more consistent. Department of Workforce Development spokesman Marc Lotter explained: "Given the early-December expiration of the federal (unemployment benefit) extensions and the increased stress on some of the unemployed, we thought added security would provide an extra level of protection for our employees and clients."

- The Teachers' Retirement System for Illinois reports its unfunded liability increased by $4.8 billion (U.S.) in fiscal 2010; meaning the total unfunded liability for the plan is approaching $40 billion (U.S.) – or 52% of total future liabilities

WEDNESDAY, NOVEMBER 3RD

- In U.S. mid-term elections, Republicans gained at least 60 seats to seize control of the House of Representatives, as well as a handful of seats in the Senate to narrow the Democratic majority. With both parties pledging bipartisan co-operation, it remains to be seen to what extent this can be achieved without Washington succumbing to political gridlock. At Long Wave Analytics, to avoid the risk of being gullible, we remain skeptical at best.

- ADP Employer Services reports private sector employment increased by 43,000 jobs in October, following a revised decline of 2,000 jobs in September. Joel Prakken, Chairman of Macroeconomic Advisors LLC comments: "Employment gains of this magnitude are not sufficient to lower the unemployment rate. It would not be surprising to see several more months of lethargic employment gains, even if the economic recovery gathers momentum."

- The Commerce Department reports U.S. factory orders increased by a seasonally adjusted 2.1% in September – excluding transportation, new orders rose by 0.4%

- According to Chicago-based Challenger, Gray and Christmas Inc., planned firings declined by 32% to 37,986 in October from 55, 679 in October, 2009, citing: "Job cuts are the lowest they have been in a decade. Unfortunately, the lack of spending by consumers and businesses is stunting demand for new workers."

- The Institute for Supply Management (ISM) reports its non-manufacturing index rose to a reading of 54.3 in October from a level of 53.2 in September; but still remains lower than the year's high reading of 55.4 recorded in April

- General Motors reports U.S. sales rose by 3.5% to 183,759 vehicles in October, compared with 177,603 in the same period a year ago

- The Organization for Economic Co-operation and Development (OECD) lowers its forecast for economic growth in developed countries to a range of 2.00 - 2.50% from an average of 2.8% for 2011

- The Federal Open Market Committee (FOMC) leaves the Fed Funds rate unchanged in a range of 0 – 0.25% and "continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an extended period. The FOMC will maintain its existing policy of reinvesting principal payments from its securities holdings. In addition, the FOMC intends to purchase a further $600 billion of longer-term Treasury securities by the end of the second quarter of 2011, a pace of about $75 billion per month. The FOMC will regularly review the pace of its securities purchases and the overall size of the asset-purchase program in light of incoming information and will adjust the program as needed to best foster maximum employment and price stability." In an accompanying statement, the New York Federal Reserve stated the new FOMC purchases of U.S. Treasurys would likely focus on the 4 to 6-year maturity range. As was the case with the Fed's initial round of $1.7 trillion (U.S.) of Treasury securities purchases; as well as the continuing reinvestment of principal payments from its current holdings; at Long Wave Analytics, we reiterate that this new $600 billion "quantitative easing" initiative is doomed to failure. While serving to keep the prevailing level of interest rates and bond yields at historically low levels, this policy will also further monetize the national debt, erode the purchasing power of the dollar and endanger its status as the world's reserve currency; while not engendering any aggregate consumer demand in the U.S. economy.

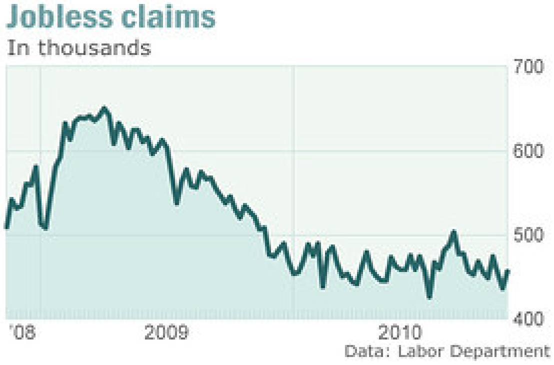
- The Federal National Mortgage Corp. (Freddie Mac) reports a $2.5 billion (U.S.) net loss in the 3rd. quarter, compared with a net loss of $5.4 billion (U.S.) in the same period a year ago. While this most recent loss represents the smallest quarterly shortfall in more than a year, the company warned that delays in the foreclosure process could raise costs "significantly" and that losses could also increase amid a faltering U.S. housing recovery.

- Canadian Industry Minister Tony Clement announces a rejection of the BHP Billiton offer for Potash Corp. because under existing legislation its bid is not deemed to "represent a net benefit to Canada," allowing the Australian mining giant 30 days to make additional submissions

THURSDAY, NOVEMBER 5TH

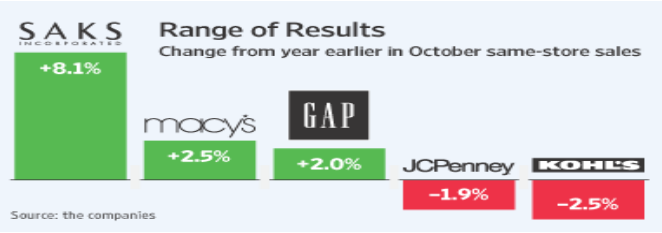
- In an attempt to justify monetizing $600 billion (U.S.) more of the national debt, U.S. Federal Reserve Chairman Ben Bernanke argues in a Washington Post op-ed article that the Fed "could hardly be satisfied" with the unemployment rate near 10%" and citing concerns about U.S. "inflation are overstated." In testimony to the House Financial Services Committee last February 25th. Mr. Bernanke said: "We're not going to monetize the debt." About $2.3 trillion (U.S.) later; that quote is just a bigger lie today from the Pinocchio of all central bankers!

- The U.S. Labor Department reports claims for state unemployment benefits rose by 20,000 to a seasonally adjusted 457,000 in the week ended October 30th.from an upwardly revised 437,000 previously reported as 434,000. Continuing claims declined by 42,000 to 4.43 million in the week ended October 23rd. while 5.01 million people received extended federal benefits in the week ended October 16th. up 358,000 from the prior week.



- Policy makers from Brazil to South Korea (host of the November 11-12 G20 meeting) worry that the Fed's decision to print dollars to purchase another $600 billion (U.S.) of Treasury securities will force more capital to stream into their currencies and negatively impact their exporters

- U.S. retailers in October set the stage for a fiercely competitive Christmas season, with price wars, promotions and competitive positioning spurring most of the sales gains and suggesting that shoppers will be aggressively wooed during the holiday season.



- According to estimates by Standard & Poors (S&P), the total cost to rescue and restructure U.S. mortgage giants Federal Home Loan Mortgage Corp. (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae) could reach $685 billion (U.S.). Fannie and Freddie have already cost American taxpayers nearly $134 billion (U.S.), however S&P analysts have calculated that the federal government could ultimately be forced to inject $280 billion (U.S.) into the firms because of the slowdown in the housing market. Any entities that would replace Fannie and Freddie would require initial funding well beyond the money already committed.

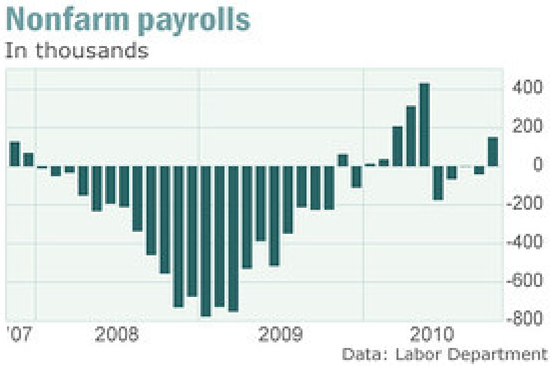
- The European Commission unveils a long list of proposals aimed at credit rating agencies towards improving the quality of ratings and safeguarding against conflicts of interest.

- In its most recent Fiscal Monitor Report, a review of global deficit issues, the International Monetary Fund (IMF) warns that the world's largest economies are failing to adequately outline medium-term efforts to cut fiscal deficits necessary to maintain market confidence. In the near term, one of the biggest risks to the global economic recovery is a mountainous wall of sovereign debt that needs to be refinanced in the coming years, estimated at $4 trillion (U.S.). "Debt rollover problems, or even a full-blown sovereign debt crisis, could emerge as a result of solvency concerns in the short or medium term. If (economic) growth slows appreciably more than currently expected, advanced economies with fiscal room to spare should delay their plans to cut spending."

Of course, this spending parade continues to be led by the United States whose political leaders continue to believe that its deficit and national debt challenges can be solved by the issuance of more debt and whose central bank, the Federal Reserve Board, believes quantitative easing (the printing of money) will spur its economy to greater growth. In a few short months, the U.S. national debt will surpass the $14 trillion (U.S.) mark. The drowning of America in an ocean of debt at the federal, state, county and municipal levels looms ever closer on the horizon.

FRIDAY, AUGUST 20TH

- The Labor Department reports U.S. non-farm payrolls increased by 151,000 in October, compared to a revised decline of 41,000 in September, previously reported as a decline of 66,000. The official U.S. unemployment rate remained unchanged at 9.6% in October, but according to Shadow Government Statistics, John Williams reports: “Of major significance, those large (payroll) revisions and the October gain largely were the result of seasonal adjustment gimmicks; they were not reflected in the underlying unadjusted numbers; so the underemployment rate remained unchanged at 17%.” Howard Segermark, of his own government relations and consulting firm notes: “The only numbers I believe out of Washington are the mile markers on I 95.”



- The great austerity auction of U.K. state-owned assets has begun after two Canadian pension funds, the Ontario Teachers’ Pension Plan and Borealis Infrastructure – an arm of the Ontario Municipal Employees Retirement System (OMERS) – purchased a 30-year concession to operate Britain’s High Speed One – the 68-mile rail line between London and the English Channel Tunnel for 2.1 billion pounds ($3.4 billion CAD). Philip Hammond, the U.K. Transport

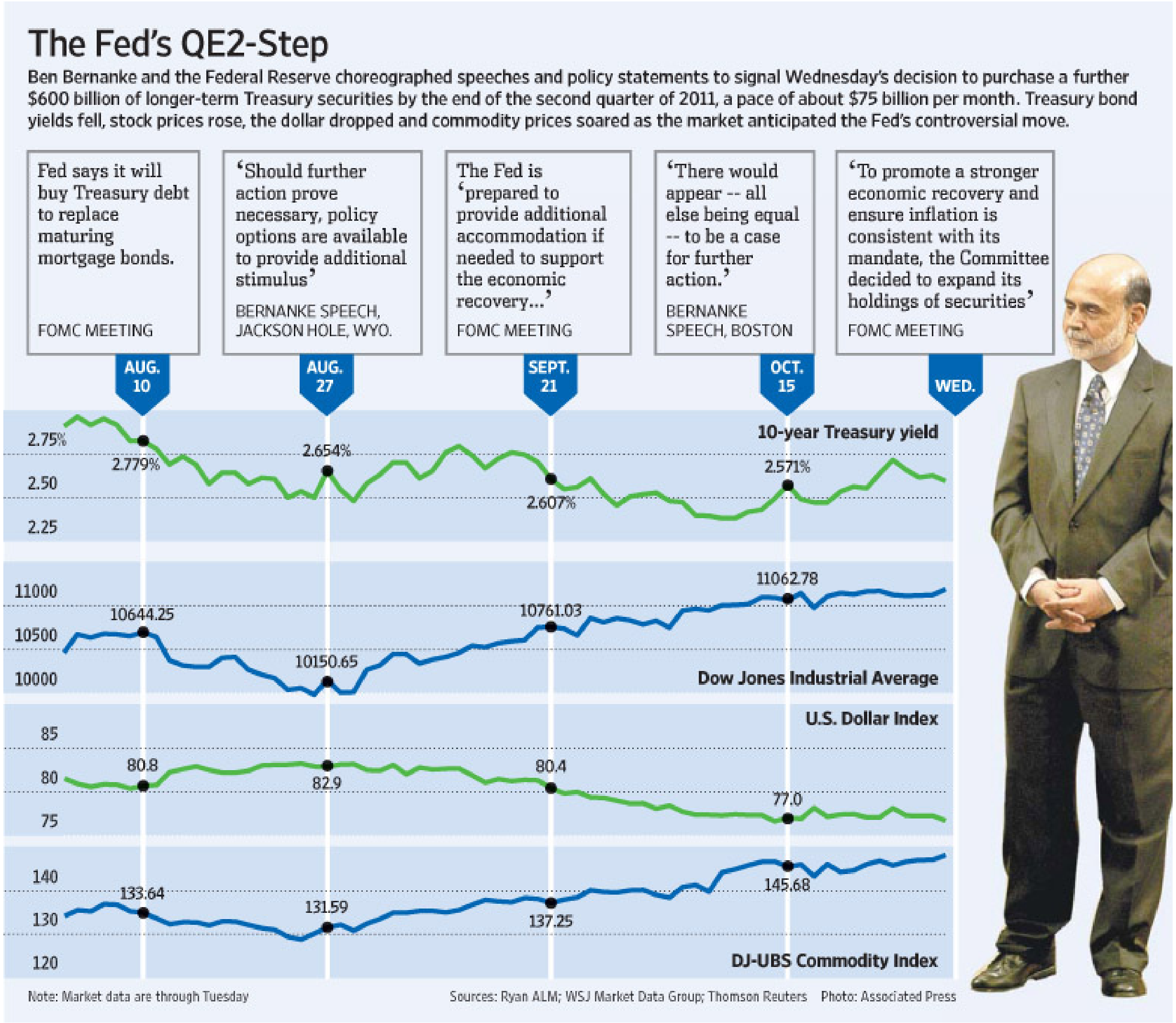
- Statistics Canada reports the economy created 3,000 jobs in October. Philip Cross, Statscan’s chief economic analyst commented while nationally, “the labour market really hasn’t done anything in the past four months, but among regions, Alberta is leading the hiring thanks to the oil sands, while Ontario employment has fallen 0.5% since June.”

- The private investment arm of the Canada Pension Plan is nearing acquisition of Intoll Group, an Australian company which owns a 30% stake in the Highway 407 toll road just north of Toronto for $3.4 billion (CAD); after company chairman, Paul McClintock announced: “After detailed consideration and examination of the options before us and after canvassing a range of our stapled security holders, we (the Board of Directors) unanimously recommend the cash proposal to Intoll investors.”

- Moody’s Investors Service downgrades the credit rating of Atlantic City, N.J. to Baa1 from A1 with a negative outlook, citing $151 million (U.S.) of general obligation debt outstanding: “The city’s negative fund balance position, outstanding tax casino credits and the significant number of remaining unsettled casino tax appeals will continue to pressure the city’s financial position.”

- In a U.K. Telegraph article entitled The Age of the Dollar Is Drawing to a Close, columnist Jeremy Warner comments on the present currency wars suggesting: “What would certainly fix things would be the dollar’s demise as the global reserve currency of choice. As we all know dollar hegemony was itself a major cause of both the imbalances and the crisis, for it allowed more or less unbounded borrowing by the U.S. from the rest of the world, at very favourable rates. As long as the U.S. remained far and away the world’s dominant economy, a global system based on the dollar still made some sense. But America has squandered this advantage on credit-fuelled spending; with the developing world expected to represent more than half of the global economy within five years, dollar hegemony no longer makes any sense. The rest of the world is now openly questioning the merits of a global currency whose value is governed by America’s perceived domestic needs, while the (economic) growth that once underpinned confidence in its ability to repay its debts has never looked more fragile. Already, there are calls for alternatives. Unwilling to wait for one, the world’s central banks are beginning to diversify their currency reserves. This, in turn, will eventually exert its own form of market discipline on the U.S., whose ability to soak the rest of the world by issuing ever more greenbacks will be correspondingly harmed.”
  See also Winter Warning, October 18, 2010 – The End of Paper Money

Monday November 1st, 2010



CLOSING LEVELS FOR FRIDAY, NOVEMBER 5th.		WEEKLY CHANGE
Dow Jones Industrial Average	11,444.10	+ 325.61 points
Spot Gold Bullion (December)	$1,397.70 (U.S.)	+ $40.10 per ounce
S&P / TSX Composite	12,925.10	+ 248.86 points

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

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