

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



Monday, November 8th

Depression Watch

MONDAY, NOVEMBER 8th

- In an op-ed article in the Financial Times, World Bank President Robert Zoellick states: *“The Group of 20 leading economies should consider employing gold as an international reference point of market expectations about inflation, deflation and future currency values. Although textbooks may view gold as the old money, markets are using gold as an alternative monetary asset today. Such a reform would reflect economic realities and should be considered as a successor to the existing global currency paradigm. This new system is likely to need to involve the dollar, the euro, the yen, the pound and a renminbi that moves towards internationalization and then open a capital account.”*
- In a speech to the Association for Financial Professionals, Dallas Federal Reserve President Richard Fisher comments on his remarks at the most recent FOMC meeting: **“The remedy for what ails the U.S. economy is, in my view, in the hands of the fiscal and regulatory authorities, not the Fed. I could not state with conviction that purchasing another several hundred billion dollars of U.S. Treasuries would lead to job creation and final-demand-spurring behavior. But I could envision such action would lead to a declining dollar, encourage further speculation, provoke commodity hoarding, accelerate the transfer of wealth from the deliberate saver and the unfortunate, and possibly place at risk the stature and independence of the Fed. For the next eight months, the nation’s central bank will be monetizing the federal debt. This is risky business.”** *The lone voice of a non-voting FOMC member crying in the wilderness! See also, Winter Warning, November 8, 2010 – The Impending Implosion of America*

- Ambac Financial Group Inc., a holding company for the bond insurer being restructured by state regulators in Wisconsin, filed for bankruptcy to reschedule payments on more than \$1 billion (U.S.) in bonds and other claims.
- The Federal Deposit Insurance Corp. (FDIC) closes four banks bringing the 2010 total to 143, topping the 140 shuttered last year. The FDIC seized control of K Bank in Randallstown, Maryland; Pierce Commercial Bank of Tacoma, Washington; Westland Commercial Bank in Woodland Hills, California and First Vietnamese American Bank in Westminster, California.
- On his Congressional website U.S. Senator elect Ron Paul, (R) Kentucky, warns: *“U.S. Social Security faces an unfunded liability of approximately \$18 trillion (U.S.). At some point, in the near future Congress must allow taxpayers to opt out of federal payroll taxes in exchange for never receiving Social Security benefits. Similarly, Medicare faces a shortfall of \$30.8 trillion (U.S.) in unfunded future benefits. The Part D prescription drug benefit accounts for approximately \$15.5 trillion (U.S.), or half of the unfunded Medicare liability.”*

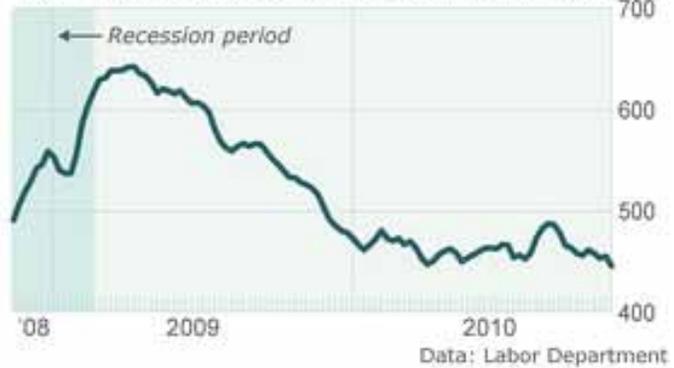
TUESDAY, NOVEMBER 9th

- Statistics Canada reports the new housing index rose by 0.2% in September, citing higher land development fees
- Several heads of state come forward to voice their opposition to the U.S. Federal Reserve’s recent announcement to launch a \$600 billion (U.S.) program of quantitative easing.

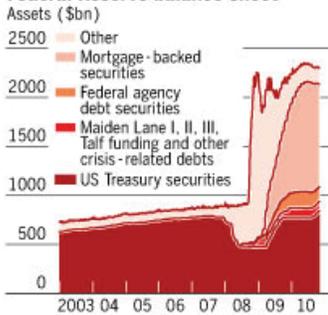
1. China's Vice Finance Minister Zhu Guangyao said: "The U.S. isn't living up to its responsibility as an issuer of a global reserve currency."
2. Luxembourg's Prime Minister Jean-Claude Juncker, who is also chairman of the euro zone finance ministers said: "I don't think it's a good decision. You're fighting debt with more debt."
3. The top economic aide to Russian President Dmitry Medvedev said: "Russia will insist at the G-20 summit that the Fed consult with other countries ahead of major policy decisions."

Declining claims

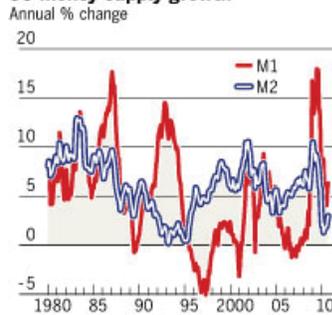
Four-week average of jobless claims, in thousands



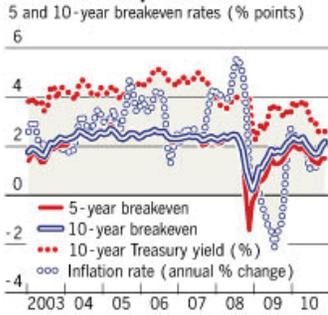
Federal Reserve balance sheet



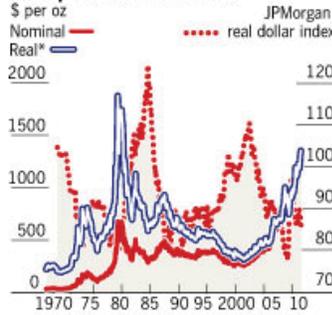
US money supply growth



US inflation expectations



Gold price and real dollar



- President Obama's National Commission on Fiscal Responsibility and Reform releases a draft proposal projecting a \$4trillion (U.S.) deficit reduction through the year 2020. Co-chairmen Erskine Bowles and Alan Simpson announce their report recommends changes to the mortgage interest tax deduction, cuts in defense spending, a reduced base rate for corporate taxes and raising the Social Security retirement age to 68 by 2050. The final report, including the support of 14 of the bipartisan Commission's 18 members is due from the Commission on December 1st., but its recommendations are non-binding on the U.S. Congress.
Let the American Civil War of retirement benefits and entitlements begin! Expect gridlock, compromise and only pyrrhic victories for the Republicans.

- A leading Chinese rating agency, Dagong Global Credit Rating, downgrades its sovereign credit rating for U.S. Government debt to A (High) from AA, with a negative outlook. Its analysis is highly critical of American attempts to borrow their way out of debt. It criticizes competitive currency devaluation and predicts a "long term recession."

- Statistics Canada reports the nation's trade deficit widened to \$2.49 billion (CAD) in September from \$1.49 billion (CAD) in August, citing reduced U.S. demand

- The Federal Reserve Bank of New York announces it will purchase \$105 billion (U.S.) of 5-year to 10-year U.S. Treasuries by December 9th. as part of its recently announced quantitative easing program. James West, editor of the MidasLetter, warns: " You can't use your own debt to purchase more debt when you can't repay the original debt. The crime is compounded when you know you're never going to repay the debt. It amounts to treason to intentionally destroy the integrity of the nation's money." **Hear! Hear!**

- The U.S. Treasury reports the federal government deficit was \$140.4 billion (U.S.) in October, or \$1.68 trillion (U.S.) on an annualized basis

WEDNESDAY, NOVEMBER 10th

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 24,000 to 435,000 in the week ended November 5th. while continuing claims declined by 86,000 to 4.3 million in the week ended October 30th. About 4.73 million people received extended federal benefits in the week ended October 23rd. down 286,000 from the previous week.

- The Commerce Department reports the U.S. trade deficit contracted to \$44 billion (U.S.) in September, citing higher service sector exports, such as legal work and software consulting
- China announces it will force banks to hold more foreign exchange and strengthen auditing of overseas fund raising, increasing efforts to curb hot-money inflows that may inflate asset bubbles and add pressure for a stronger yuan. The State Administration of Foreign Exchange will introduce new rules on currency provisioning and tighten management of banks' foreign debt quotas. The government will also regulate Chinese special-purpose vehicles overseas and tighten controls on equity investments by foreign companies in China.

3. From the pen of the U.S. Federal Reserve Chairman Ben Bernanke: “The Federal Reserve has a particular obligation to help promote increased employment and sustain price stability.”

Note the key phrase commitment in the mandates of the Bank of England “to maintain the value of money” and the Bank of Canada “to preserve the value of money,” while no mention of protecting the value of the American dollar is mentioned in Mr. Bernanke’s statement. Indeed, for decades we have listened to one Treasury Secretary after another declare the U.S. is pursuing “a strong dollar policy,” but in reality, that continues not to be the case. See also, Winter Warning, November 8, 2010 – The Impending Implosion of America

THURSDAY, NOVEMBER 11th
Remembrance Day Holiday in Canada
Veteran’s Day Holiday in the United States

- China’s consumer price index rose by 4.4% in October, as food prices soared by more than 10%. In an e-mail to clients, Merrill Lynch China economist Lu Ting commented that China’s “central bank is expected to raise its lending rates three more times during 2011.”
- According to Realty Trac Inc., U.S. home seizures declined by 9% to 93,336 during October from a record 102,134 in September, as attorneys general began a nationwide coordinated probe into bank foreclosure practices, wherein false documents and signatures were used in a process known as “robo-signing”
- The U.S. Federal Reserve’s decision last week to resume purchasing U.S. Treasury securities in a bid to lower bond yields and the prevailing level of interest rates, has become a preoccupation of many G20 leaders because quantitative easing has the effect of weakening the U.S. dollar. Prior to the official start of the Group of 20 Summit in Seoul, Canadian Prime Minister Stephen Harper remarked to reporters: *“Under the circumstances, the quantitative easing policy is in the short term the only option available for the Federal Reserve and I’m not sure anyone else has provided any compelling argument as to what alternative policy they would pursue.”*

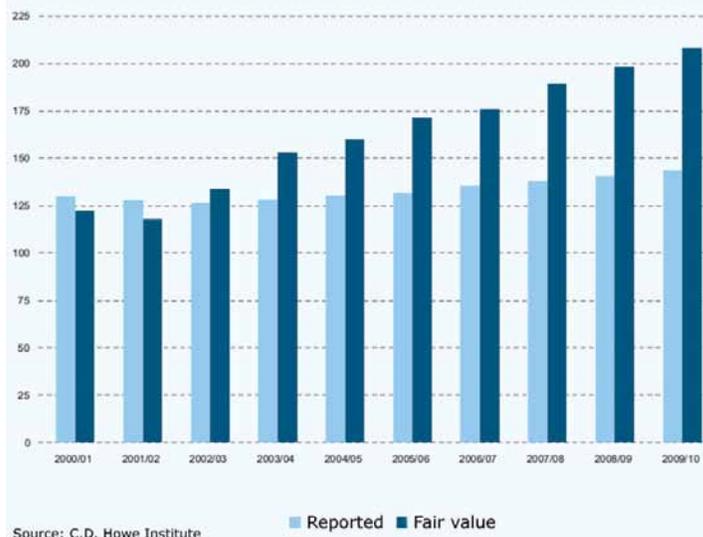
Wake up call for Mr. Harper: No additional liquidity is necessary in the U.S. financial system at this time. It is up to Congress to cut spending and raise taxes before America drowns in its national debt. Witness these mandates:

1. From the Bank of England’s website: “It is the Bank’s job to maintain the value of money by keeping the rate of inflation at a low level.”

2. From the Bank of Canada’s website: “We work to preserve the value of money by keeping inflation low and stable.”

- Tim Hortons announces the closing of 54 locations in the northeastern United States – 36 restaurants and 18 full-service kiosks – mostly in Connecticut, Rhode Island and Massachusetts
- According to a new study by the C.D. Howe Institute, using a fair-value measure for the Canadian government’s pension obligations related to public service employees, such as the Canadian Forces and the Royal Canadian Mounted Police, the amount totals almost \$208 billion (CAD), or about \$65 billion (CAD) more than the number in the Public Accounts. Alexandre Laurin and William Robson, authors of the report warn: *“The larger-than-reported gap between federal pension promises in these plans and the assets that back them is a problem, both for federal employees and for taxpayers. For federal employees, the gap represents a risk if future taxpayers refuse to fill the hole left by inadequate contributions. Taxpayers face the risk if debt levels rise, fears of sovereign defaults will likely drive up the cost of borrowing for all governments.”*

Net federal pension obligation, reported v. fair-value estimate
\$Billions, fiscal years



FRIDAY, NOVEMBER 12th

- The Reuters/University of Michigan consumer sentiment index rose slightly to a reading of 69.3 in November from a reading of 67.7 in October

The U.S. Postal Service reports a loss of \$8.5 billion (U.S.) in the fiscal year ended September 30th., compared with a loss of \$3.8 billion (U.S.) in fiscal 2009. Chief Financial Officer Joseph Corbett commented: *"We expect to go through the (calendar) year with sufficient cash to continue operations, however, we don't expect to be able to meet all of our obligations due on December 31st., primarily a \$5.5 billion (U.S.) retiree health payment."* In order to stem losses, the Postal Service has asked Congress for permission to close various post offices and eliminate Saturday delivery.

- At the end of their two-day summit in Seoul, the leaders of the Group of 20 rich and developing economies issued a watered-down communiqué which included:

1. The G-20 will develop *"indicative guidelines comprised of a range of indicators"* to help identify large trade imbalances that *"require preventative and corrective actions."*

2. Countries commit to *"moving toward more market-determined exchange rate systems."* They will accomplish this by *"enhancing exchange rate flexibility to reflect underlying economic fundamentals and refrain from competitive devaluation of currencies."*

3. *"Advanced economies, including those with reserve currencies, will be vigilant against excess volatility and disorderly movements in exchange rates. These actions will help mitigate the risk of excessive volatility in capital flows facing some emerging countries."*

4. Countries will *"resist protectionism in all its forms and will roll back any new protectionist measures, that may have arisen, including export restrictions and WTO-inconsistent measures to stimulate exports."*

5. G-20 leaders endorse the Basel III banking regulations, to be fully phased in by January 2019, and are committed to new rules for *"too big to fail"* banks, known as systemically important financial institutions.

CLOSING LEVELS FOR FRIDAY, NOVEMBER 12th.
WEEKLY CHANGE

Dow Jones Industrial Average
11,192.58 – 251.52 points

Spot Gold Bullion (December)
\$1,365.50 (U.S.) – \$32.20 per ounce

S&P / TSX Composite
12,749.24 – 175.86 points

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