

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



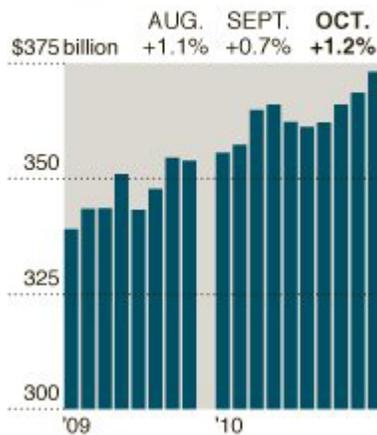
Monday, November 15TH

The Commerce Department reports U.S. retail sales rose by 1.2% in October following an increase of 0.7% in September, citing a 14% gain in sales of motor vehicles, auto parts and sales at gasoline stations

MONDAY, NOVEMBER 15TH

Retail Sales

Total retail and food service sales, seasonally adjusted.



Source: Commerce Department

- Portugal becomes the latest European nation to indicate it is on the brink of seeking financial assistance from Brussels, after Ireland confirmed it was in preliminary talks with the European Central Bank (ECB) regarding its debt woes. European finance ministers will meet in Brussels tomorrow to discuss a new European stability plan that is expected to result in billions of euros being made available to Ireland and Portugal.. Yesterday, German Chancellor Angela Merkel warned: "If the euro fails, then Europe fails."

- Caterpillar, the world's largest manufacturer of earth-moving equipment, acquires Bucyrus International, an American manufacturer of mining equipment, for \$8.6 billion (U.S.). Purchasing Bucyrus enables Caterpillar to offer the widest range of mining equipment of any global manufacturer and take a bigger share of the \$30 billion (U.S.) market.
- Australian mining giant BHP Billiton withdraws its \$38 billion (CAD) offer for Potash Corp. but not without a caustic exhibition of sour grapes. Not shared by the Canadian Government is BHP's opinion that: "As a package, the proposed undertakings offered by BHP Billiton in a signed, written submission to the Canadian Minister of Industry, were unparalleled in substance, scope and duration, reflecting the importance of potash to Canada and Saskatchewan."
Wake up call for BHP's chief executive officer, Marius Kloppers: Why doesn't BHP make a \$3.8 trillion (U.S.) offer to the United States Congress for the State of Alaska? After all, the Americans purchased the territory from the Russians on March 30, 1867 for a mere \$7.2 million (U.S.). Given the American deficit and national debt situation, perhaps, the U.S. government would be mightily tempted to realize a capital gain.

TUESDAY, NOVEMBER 16TH

- Eurostat reports consumer prices in the 16-country euro zone rose by 0.4% in October from September and by 1.9% on a year-over-year basis

- Sears Canada reports a net profit of \$18.5 million (CAD) in the 3rd. quarter, down 61% from the \$47.1 million (CAD) profit earned in the same period of 2009, citing low consumer confidence and the introduction of the new Harmonized Sales Tax (HST) in Ontario and British Columbia
- The ZEW economics institute reports its German business confidence index rose to a reading of 1.8 in November from a level of minus 7.2 in October. Michael Schroeder, manager of ZEW's financial markets division cited: "growing optimism towards the economic perspectives of other countries, especially the U.S., but also towards France and Italy."
- The Labor Department reports the U.S. Producer Price Index (PPI) rose by 0.4% in October, the same percentage increase as in September and August, mostly due to higher gasoline prices. In the past 12 months, the PPI is up by 4.3%

Producer Prices

Index of finished goods prices, 1982=100, seasonally adjusted.



Source: Labor Department

Wakeup call for U.S. Senators Bob Corker and Mike Pence: On the one hand, you are correct to seek a change in the Fed's mandate; on the other hand, while your intent is commendable regarding price stability, it is lacking the razor focus of preserving the value of the U.S. dollar. Let the integrity of the currency be paramount – let no debasement, such as quantitative easing, enter into either Fed policy, or Fed strategy. In other words, take a lesson from the Bank of England and the Bank of Canada – "Work to preserve the value of the currency by keeping inflation low and stable." It is not treasonous to draft American monetary policy based upon the model of your long time friends and neighbours. All solutions to the world's financial problems are not necessarily made in America!

- The Federal Reserve reports that U.S. industrial production was unchanged in October, citing output at the nation's factories, mines and utilities was flat; as capacity utilization remained unchanged at 74.8%

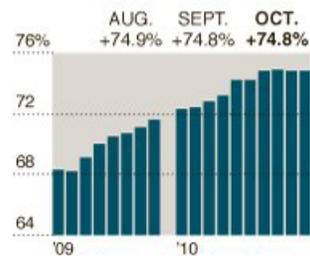
Industrial Production

Index of total industrial production, 2002=100 seasonally adjusted.



Capacity Utilization

Total industrial output as a percentage of capacity, seasonally adjusted.



Source: Federal Reserve

- Political opposition to the U.S. Federal Reserve's \$600 billion (U.S.) initiative of quantitative easing (QE2) is causing some Republicans to seek a change in the Fed's dual mandate; by terminating its goal of fostering maximum employment and focusing solely on price stability through control of inflation. Senator Bob Corker (R- Tennessee) declared: "It is time that we work to clarify the mandate of the Federal Reserve. Providing our central bank with a clear and explicit focus on keeping inflation low, will serve America better than the broader mandate approach we have today." Senator Corker then conjoined with Senator Mike Pence (R- Indiana) to issue a call for a policy change in the Fed's mandate.

WEDNESDAY, NOVEMBER 17TH

- General Motors raises in excess of \$20 billion (U.S.) through an initial public offering (IPO) of common and preferred shares that reduces the U.S. Government to a minority shareholder

THURSDAY, NOVEMBER 18TH

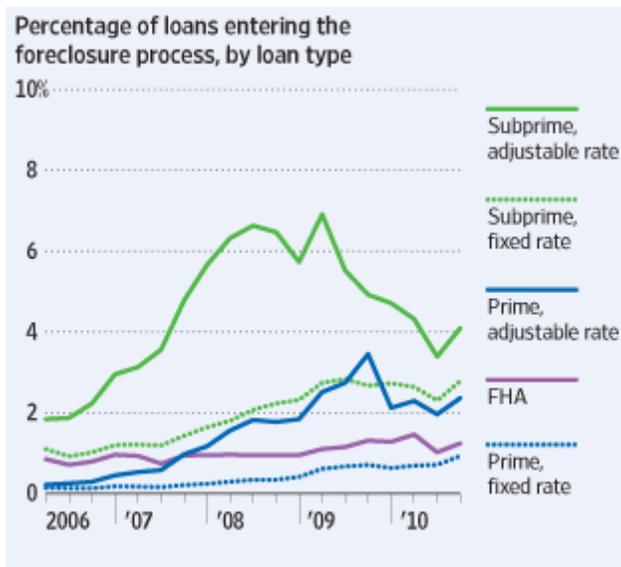
- The Labor Department reports the U.S. consumer price index rose by 0.2% in October following a 0.1% increase in September
- The Commerce Department reports U.S. housing starts declined by 11.7% in October to a 519,000 annual rate from a revised 588,000 starts in September
- The Office for National Statistics reports U.K. jobless claims declined by 3,700 in October to 1.47 million from September
- The historically stable U.S. municipal bond market has become volatile in the past week, posting its sharpest price declines in nearly two years, as investors demand higher yields to buy bonds issued by states, counties and municipalities to finance their operations. State and local government budgets have been battered by a significant decline in tax revenues amid the economic downturn, and most are barred constitutionally from operating budget deficits. Tom Dresslar, a spokesman for the California State Treasurer, remarked: "The tax-exempt municipal bond market is a cold, cold world right now for issuers and taxpayers. In light of (current) market conditions, the State of California has decided to cancel a \$267.3 million (U.S.) bond issue it had planned to market next week."
- The Conference Board of Canada reports the Province of Quebec will face an annual deficit of \$45 billion (CAD) by 2030 as it struggles with soaring health care costs and limited revenue growth over the next 20 years. Mario Lefebvre, director of the Board's Centre for Municipal Studies, warns: "If Quebec's taxation rates remain unchanged and historical trends in actual per capita program spending are maintained, the Quebec Government will hit a wall in the future. The Conference Board is pointing out that the Quebec Government's financial situation is shaky and that maintaining the status quo is not an option."
- The Organization for Economic Cooperation and Development (OECD) warns that a weakening real estate market in Canada poses a downside risk to any potential economic rebound. The OECD stated lower economic growth would be a "function of household finances being stretched, wage growth starting to moderate and government stimulus spending winding down. Substantial economic slack should gradually diminish, but keep inflation pressures subdued."
- The Labor Department reports U.S. claims for state unemployment benefits rose by 2,000 to a seasonally adjusted 439,000 in the week ended November 12th.



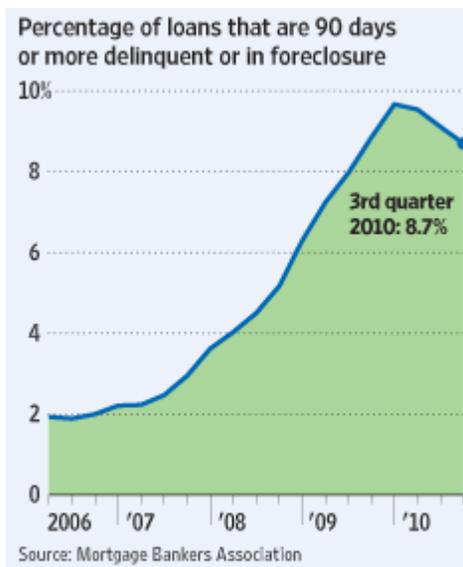
See also, Winter Warning, June 8, 2009 – California, the Golden State at the Brink of Collapse

- According to the Mortgage Bankers Association, the number of American mortgagors who are delinquent on their mortgage payments declined to about seven million households as at September 30th., down slightly from the same period in 2009

CLEANING HOUSE / DELINQUENCIES FALL, BUT FORECLOSURES RISE

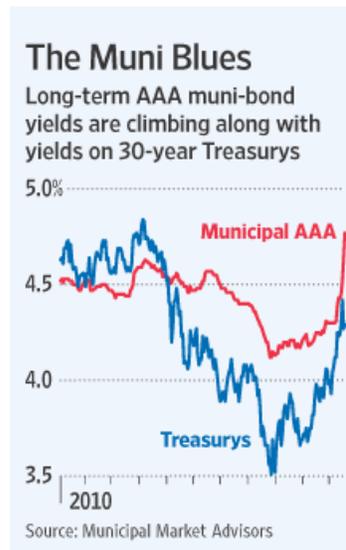


Source: Mortgage Bankers Association



Source: Mortgage Bankers Association

- Further to yesterday's reports and comments regarding the recent volatility in the American state and municipal bond markets, California's planned \$10 billion (U.S.) "revenue anticipation note" issuance was deemed as an litmus test for governments to access the fixed income markets; and the lukewarm interest from buyers signaled that municipal credits may have to pay a higher yield to maturity, in order to attract investors. Indeed, over three days, California reported orders totaling only \$6 billion (U.S.) for the notes. Moreover, Moody's Investors Service downgraded the credit rating of the City and County of San Francisco, as well as the City of Philadelphia. In addition, the City of Hamtramck, Michigan is seeking authority to file for bankruptcy. Since the Federal Reserve's recent \$600 billion (U.S.) quantitative easing announcement, it is interesting to witness the yield of the 10-year U.S. Treasury bonds increase by 30 basis points from 2.53% to 2.83%. Perhaps, investors are finally beginning to realize that the purchase of U.S. Treasuries does not represent a "flight to quality." See also, Winter Warning, September 22, 2008 – The Die Is Cast – The Flight to Folly.



Source: Municipal Market Advisors

- House Republicans defeat a bill to extend benefits for the long-term unemployed by 3 months beyond their expiration date of November 30th., citing their demand that the \$12 billion (U.S.) cost of continuing the program be offset, rather than add to the deficit

- House Minority leader John Boehner (R., Ohio) warns fellow GOP lawmakers that the national debt limit must be raised from the current \$14.3 trillion (U.S.) early in 2011, citing: "Whether we like it or not, the United States has obligations and we have obligations on our part" to honour same. The American national debt currently stands at \$13.8 trillion (U.S.)

FRIDAY, NOVEMBER 19TH

- U.S. Treasury Secretary Timothy Geithner announces the Obama administration would oppose any effort to alter the Federal Reserve's mandate to pursue full employment and warns: "It is very important to keep politics out of monetary policy. You want to be very careful not to take steps that hurt our credibility." Senator Bob Corker, (R., Tennessee) who serves on the Senate Banking Committee, is in favour of confining the Fed's mandate to promoting price stability.

Essentially, what Senator Corker and colleagues are advocating is a Federal Reserve mandate focused along the same lines as the Bank of England and the Bank of Canada, wherein their mandate of preservation, or protection of the value of the national currency is paramount, i.e. the integrity of the national currency is sacrosanct. With all undue respect, Treasury Secretary Geithner, from whence do you think the Federal Reserve's mandate originated in 1913? The answer is with the politicians and bankers of the day – so, your comment about keeping politics out of monetary policy is absurd. Stop reading science fiction and start reading economic history."

See also, Winter Warning, February 16, 2009 – A Man of Constant Sorrow

- The U.S. Senate approves spending \$4.6 billion (U.S.) to settle two long-standing lawsuits: one by black farmers who alleged racial discrimination by government lenders and the other by 300,000 American Indians who claimed they were cheated out of land royalties dating back to 1887. U.S. President Barack Obama praised the Senate action and urged the House of Representatives to move forward with the bill "as they did last year."

- The Thai government reports the nation's gross domestic product (GDP) rose by 6.7% in the 3rd. quarter. Prasarn Trairatvorakul, Thai Central Bank Governor, remarked: "Monetary policy, while focused on inflation, will be flexible amid rapid changes in the global situation."

- In a speech from Frankfurt, Federal Reserve Chairman Ben Bernanke refutes domestic and foreign characterizations of the Fed's asset purchase plan (known as quantitative easing) as an act of desperation and a disguised attempt to debase the value of the U.S. dollar, citing: "Securities purchases work by affecting the yields on the acquired securities and via substitution effects in investors' portfolios, on a wider range of assets."

The Fed's policy of "printing money" will do nothing to create aggregate consumer demand within the U.S. economy. Trying to solve a deficit and debt problem by creating more debt just postpones the day of reckoning further down the road.

CLOSING LEVELS FOR FRIDAY, NOVEMBER 19th.
WEEKLY CHANGE

Dow Jones Industrial Average

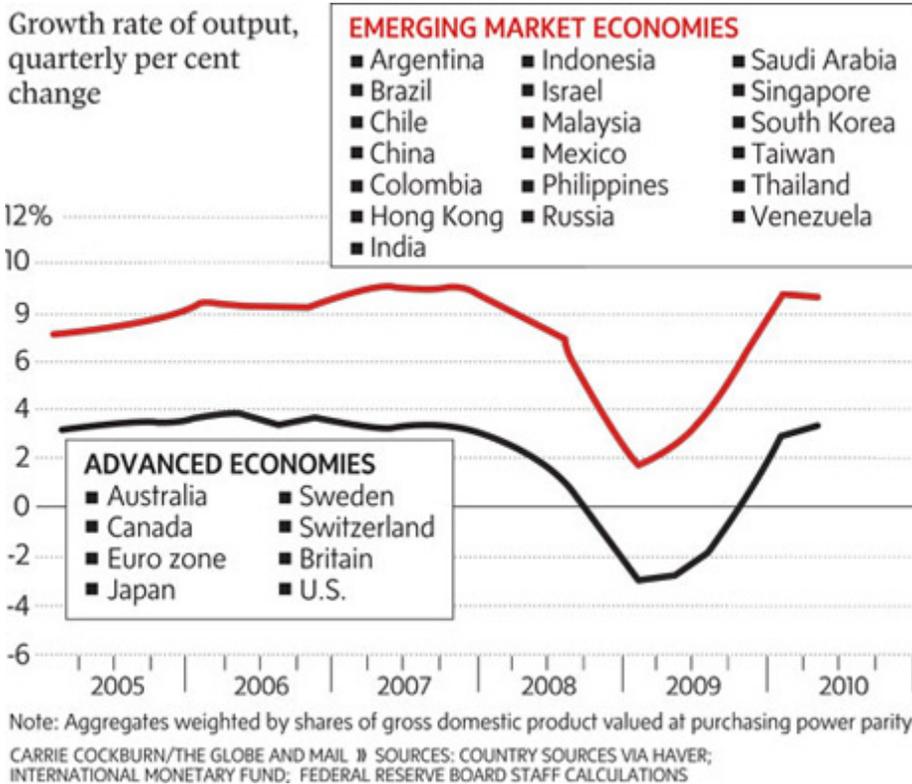
11,203.55 + 10.97 points

Spot Gold Bullion (December)

\$1,352.30 (U.S.) – \$13.20 per ounce

S&P / TSX Composite

12,956.33 + 207.09 points



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

Disclaimer : This information is made available by Long Wave Analytics Inc. for information purposes only. This information is not intended to be and should not to be construed as investment advice, and any recommendations that may be contained herein have not been based upon a consideration of the investment objectives, financial situation or particular needs of any specific reader. All readers must obtain expert investment advice before making an investment. Readers must understand that statements regarding future prospects may not be achieved. This information should not be construed as an offer to sell, or solicitation for, or an offer to buy, any securities. The opinions and conclusions contained herein are those of Long Wave Analytics Inc. as of the date hereof and are subject to change without notice. Long Wave Analytics Inc. has made every effort to ensure that the contents have been compiled or derived from sources believed reliable and contain information and opinions, which are accurate and complete. However, Long Wave Analytics Inc. makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions which may be contained herein, and accepts no liability whatsoever for any loss arising from any use of or reliance on this information. Long Wave Analytics Inc. is under no obligation to update or keep current the information contained herein. The information presented may not be discussed or reproduced without prior written consent. Long Wave Analytics Inc., its affiliates and/or their respective officers, directors or employees may from time to time acquire, hold or sell securities mentioned herein. In addition, the companies referred to herein may pay a fee to Long Wave Analytics Inc. to be listed on www.longwavegroup.com. Copyright © Longwave Group 2010. All Rights Reserved.

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