

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

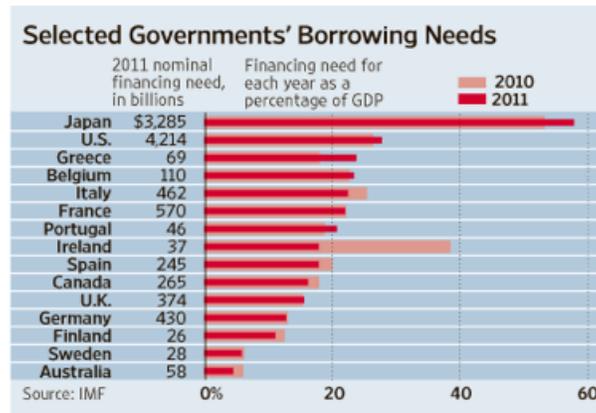


Monday, November 22nd

Ireland formally requests a financial aid package from the European Union (EU) and the International Monetary Fund (IMF). While Ireland's Finance Minister Brian Lenihan announced the bailout package would

MONDAY, NOVEMBER 22ND

amount to less than 100 billion euros, Moody's Investors Service warned the increased debt burden would likely result in a "multi-notch" downgrade of Ireland's Aa2 sovereign debt rating, which has been under review for the past month. Meanwhile, the Green Party, the junior partner in the ruling coalition, announced it would withdraw from Ireland's government after the 2011 budget and the rescue package are in place; leaving the door open to probable elections in January. See also, Winter Warning, April 13/09 – No Man Is an Island, Entire of Itself



- The U.S. Federal Bureau of Investigation (FBI) raids the offices of Diamondback Capital Management LLC, Level Global Investors LP and Loch Capital Management LLC amid a massive government investigation into alleged insider trading at hedge fund firms, mutual funds and investment banks. The U.S. Justice Department is preparing insider trading charges that could ensnare financial consultants, investment bankers, as well as hedge fund and mutual fund traders.
- Interestingly, in a separate MineSet newsletter, analyst James Sinclair reports: "we can glean from Federal Deposit Insurance Corporation (FDIC) bank failure announcements the extent to which management of the failed banks exaggerated the value of the banks' assets. These exaggerations were made legal in early 2009, when the Financial Accounting Standards Board (FASB) repealed fair value accounting requirements. The following analysis covers the 38 banks closed by the FDIC between August 6, 2010 and November 12, 2010. Taking the 38 banks as a whole, they had declared assets of \$13.78 billion (U.S.) and deposits of \$11.97 billion (U.S.). The FDIC estimated the closings cost \$2.72 billion (U.S.), meaning the bank's assets were really only worth \$9.25 billion (U.S.). Bank management overvalued the assets by \$4.53 billion, around 49%." Amid other bank closings analyzed during 2010, bank management overvaluation of assets ranged as high as 113%.

- In a new report, American banking analyst Meredith Whitney warns U.S. banks will close 5,000 branches during the next 18 months, citing an "uphill battle" for loan growth as consumers reduce debt and less revenue from fees due to new regulations and the lack of a securitization market

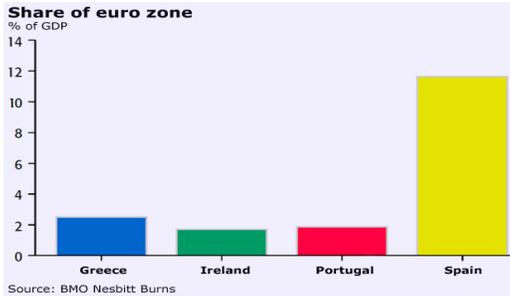
## TUESDAY, NOVEMBER 23RD

- Standard & Poors (S&P) downgrades Ireland's long term sovereign debt rating to 'A' from 'AA' (Low) with a negative outlook. In a statement, S&P cited: "The Irish government looks set to borrow over and above our previous projections to fund further bank capital injections into Ireland's troubled banking system. Putting the rating on CreditWatch with negative implications reflects risk of a further downgrade if talks on a European Union-led rescue fail to staunch capital flight."
- Statistics Canada reports the nation's consumer price index rose by 2.4% on a year-over-year basis, citing higher prices for gasoline, electricity and postal services
- In a revised estimate, the Commerce Department reports the U.S. gross domestic product (GDP) grew by a 2.5% annual rate in the 3rd. quarter, somewhat higher than the 2% pace initially estimated in October, citing higher consumer spending
- The National Association of Realtors reports U.S existing home sales declined by 2.2% in October to a seasonally adjusted annual rate of 4.43 million units compared to September, citing weak demand and concerns about the foreclosure process
- The minutes of the most recent meeting of the U.S. Federal Reserve Open Market Committee (FOMC) reveal lower revisions to Fed forecasts for U.S. economic growth. The Fed now expects gross domestic product (GDP) will grow between 3% and 3.6% in 2011, down from its June estimate of a range of 3.5% to 4.2%, and the unemployment rate is predicted to drop to 9% from the current 9.6%.  
Expect the Fed's next downward GDP revision for 2011 in February.

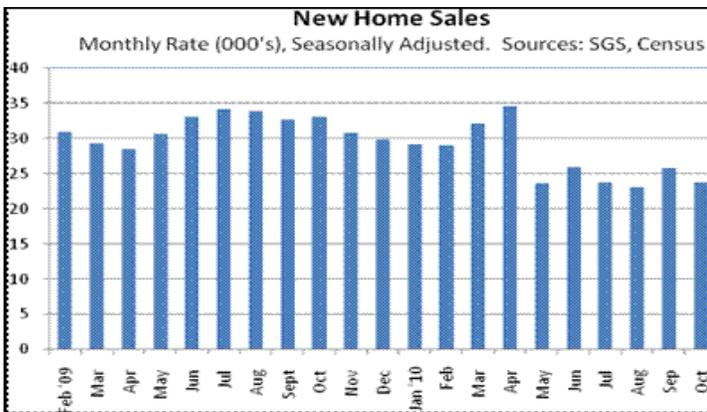
## WEDNESDAY, NOVEMBER 24TH

- According to a joint statement released by the U.S. Attorney's Office for the Southern District of New York and the Federal Bureau of Investigation (FBI), Don Chu, an "Asia expert" executive employed by Primary Global Research, has been arrested and charged with "conspiring to promote the firm's consulting services by arranging for insiders at publically traded companies to provide non-public information to the firm's hedge fund clients for the purpose of executing profitable securities transactions."
- The Thomson Reuters / University of Michigan index of consumer sentiment increased to a reading of 71.6 in November from a level of 67.7 in October

- The Commerce Department reports U.S. durable goods orders declined by 3.3% in October after an upwardly revised 5% increase in September
- Eurostat reports industrial orders in the 16-nation euro zone declined by 3.8% in September following an increase of 5.1% in August
- The Conference Board of Canada reports its index of consumer confidence rose to a reading of 83.6 in November from a level of 79.8 in October
- The Munich-based Ifo Institute for Economic Research reports its German business climate indicator rose to a reading of 109.3 in November from a level of 107.6 in October, citing the index "is now above the level of the 2006/2007 economic boom."
- The U.K. Office for National Statistics reports the country's gross domestic product (GDP) grew by 0.8% in the 3rd. quarter, citing higher exports, but further growth prospects face headwinds from deep government spending cuts which will take hold early in 2011
- According to the German newspaper Der Spiegel, strikes have shut down public services across Portugal, as unions express growing public dissatisfaction with Portugal's tough austerity measures. Meanwhile, Portuguese bond yields are rising sharply amid debt market fears that the country could be next in line for a European Union (EU) / IMF financial rescue package.
- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 34,000 to 407,000 in the week ended November 20th., while continuing claims fell by 142,000 to 4.18 million in the week ended November 13th.
- Welfare cuts of 2.8 billion euros (\$3.8 billion U.S.) and income tax increases of 1.9 billion euros are among Ireland's austerity measures planned to generate another 15 billion euros into the budget, thereby narrowing Ireland's budget gap to 3% of gross domestic product (GDP) by the end of 2014 from 12% of GDP this year. Ireland's Finance Minister Brian Cowen is concluding talks with the European Union (EU) and the International Monetary Fund (IMF) regarding an 85 billion euro aid package, as concerns mount that the Irish fiscal crisis may spread to other euro nations such as Portugal.  
See also, Winter Warning, April 27, 2009 – Weak Sisters in the Euro Zone



- The Commerce Department reports U.S. new home sales declined by 8.1% in October to an annual rate of 283,000 units, citing an overhang of distressed properties, a continuing high unemployment rate of 9.6% and buyer concerns over faulty foreclosure proceedings



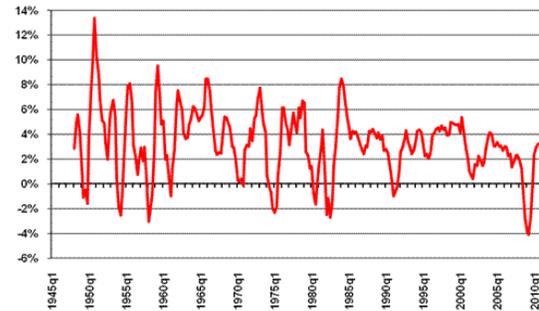
**THURSDAY, NOVEMBER 25TH**  
**U.S. THANKSGIVING DAY HOLIDAY**

- In an op-ed published by the German Daily, *Suddeutsche Zeitung*, Russian Prime Minister Vladimir Putin proposes “the creation of a harmonious economic community stretching from Lisbon to Vladivostok. In the future, we could even consider a free trade zone, or even more advanced forms of economic integration, resulting in a unified continental market with a capacity worth trillions of euros.” Russia is hoping to attain membership in the World Trade Organization (WTO) in 2011, a goal to which the European Union (EU) has recently curtailed its opposition. Although the average WTO accession period is five to seven years, Russia has been in negotiations for 17 years. We pose this question to German Chancellor Angela Merkel and U.S. President Barack Obama: When you can plainly see what corruption, thievery, torture and murder lurks in high places within the policed Russian economic, political and judicial systems, 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.

**FRIDAY, NOVEMBER 26TH**

- In a *Globe and Mail* op-ed entitled *Staring into the Abyss of U.S. debt*: it’s not all doom and gloom, reporter Derek DeCloeet opines: “Impossible as it may seem, when its economy is stronger, the U.S. has room to cut its deficit by raising taxes...There are plenty of things it could do – (establish) a value-added tax, for one...The U.S. has many things that separate it from the euro zone basket cases, but the most important are social cohesion, political stability and financial credibility...Yes, the U.S. has financial problems – big ones. Don’t underestimate its capacity to overcome them.”

**Real Quarterly Gross Domestic Product**  
Year-to-Year % Change, 1948q1 to 2010q3 (BEA)



- The Canadian Government recorded a \$3.9 billion (CAD) deficit in September, bringing the total for the first half of the fiscal year to \$17.4 billion (CAD). Finance Minister Flaherty has budgeted a \$45.4 billion (CAD) deficit target for the current fiscal year which ends on March 31, 2011. As global economic growth continues to moderate, Mr. Flaherty will be well-challenged to undercut his target.
- In a defiant challenge to the financial markets, Jose Luis Rodriguez Zapatero, Spain’s Prime Minister, warns bond and currency traders “who are short selling Spain that they are going to be wrong and (it) will go against their own interests.” Mr. Zapatero “absolutely” ruled out any need for a financial rescue package for Spain. Indeed, this week witnessed the Spanish 10-year bond yield soar to 5.20%, approaching a 300 basis point spread over comparable German bunds. Long Wave subscribers should be aware that short-selling in the bond market requires very precise timing. Not only must an investor / trader pay a fee to borrow the bonds he shorted in order to make good delivery, but also, he must pay the coupon interest affixed to the bond issue to the buyer.

- Wake-up call for Mr. DeCloet: Give yourself a Christmas present by replacing your current ‘rose-coloured’ glasses with a pair of progressive lenses. Outlined below are the undeniable facts as we discern them at Long Wave Analytics:
  1. The U.S. deficit and national debt problems cannot be solved on the assumption of “when its economy is stronger.” Over the short to medium term, U.S. gross domestic product (GDP) is not going to grow, but is more likely to contract.
  2. There is no public or private support in America for higher taxes on any front; especially for a value-added tax (VAT). Politicians deem such support would mean they won’t get re-elected and taxpayers insist they can’t afford to pay higher taxes – it is the only “social cohesion” that we observe.
  3. As far as “political stability” is concerned, the rapidly approaching two years of American political gridlock should dispel that fantasy.
  4. “Financial credibility?” Since the Federal Reserve train has gone completely off the rails with its quantitative easing policy (printing money) and possesses no mandate to preserve the value of the U.S. currency, financial credibility is becoming a myth.
  5. Yes, the U.S. has financial problems – big ones. Don’t overestimate its capacity to overcome them.
- In an op-ed article in the Washington Post entitled – Will the next fiscal crisis start in Washington? – Sheila Bair, Chair of the U.S. Federal Deposit Insurance Corp. (FDIC) warns: “Total federal debt has doubled in the past seven years, to almost \$14 trillion (U.S.). This explosive growth in federal borrowing is a result of not only the financial crisis, but also government unwillingness over many years, to make the hard choices necessary to rein in our long-term structural deficit...This year, the combined expenditures on Social Security, Medicare and Medicaid are projected to account for 45% of primary federal spending, up from 27% in 1975. The Congressional Budget Office (CBO) projects that annual entitlement spending could triple in real terms by 2035, to \$4.5 trillion (U.S.). Defense spending is similarly unsustainable, and our tax code is riddled with special-interest provisions that have little to do with our broader economic prosperity. Overly generous tax subsidies for housing and health care have contributed to rising costs and misallocation of resources. Unless something is done, federal debt held by the public could rise from a level equal to 62% of gross domestic product (GDP) this year to 185% in 2035. Eventually, this relentless federal borrowing will directly threaten our financial stability by undermining the confidence that investors have in U.S. Government obligations.”

At Long Wave Analytics, we wholeheartedly agree. However, to get “something done” will require leadership from both the White House and the U.S. Congress, both of which are currently more transfixed on capturing the presidency in the 2012 election. Unfortunately, for Washington, with no Churchillian statesmanship or leadership in sight, compromise and political gridlock are about to take hold. (Notably, Winston Churchill was born on November 30, 1874). See also, Winter Warning, November 8, 2010 – The Impending Implosion of America.

CLOSING LEVELS FOR FRIDAY, NOVEMBER 26TH.

WEEKLY CHANGE

Dow Jones Industrial Average

11,092.00 – 111.55 points

Spot Gold Bullion (December)

\$ 1,363.75 (U.S.) + \$ 11.45 per ounce

S&P / TSX Composite

12,892.71 – 63.62 points

Ian A. Gordon, The Long Wave Analyst [www.longwavegroup.com](http://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](http://www.longwavegroup.com). Copyright © Longwave Group 2010. All Rights Reserved.

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