

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



Monday, November 29th

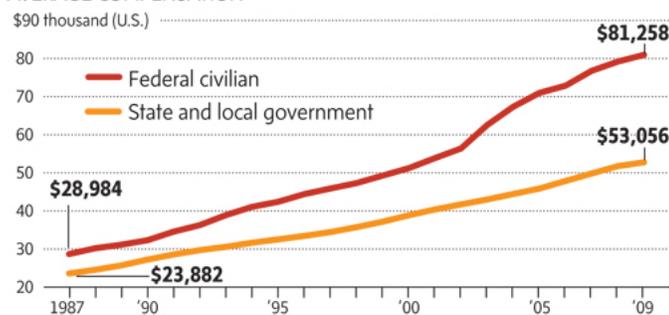
The Labour Ministry reports Japan's unemployment rate rose to 5.1% in October from 5% in September, citing the expiry of government stimulus programs weighing on domestic consumer demand.

MONDAY, NOVEMBER 29TH

In a separate release, the trade Ministry reports Japan's factory output declined by 1.8% in October – the sharpest monthly decline since February, 2009

- U.S. President Barack Obama proposes a two-year pay freeze for federal government employees in order to reduce costs by \$5 billion (U.S.) and warns: "The hard truth is getting this (federal) deficit under control is going to require some broad sacrifice, and that sacrifice must be shared by the employees of the federal government."

AVERAGE COMPENSATION

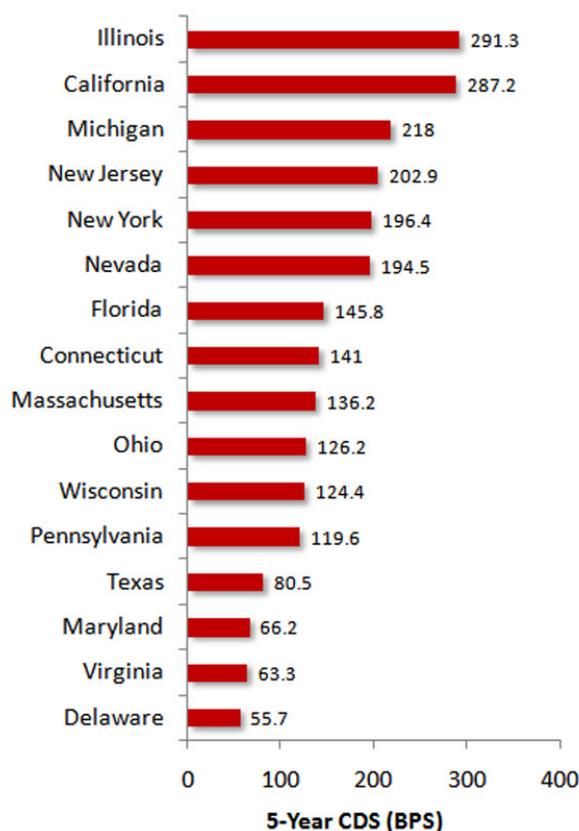


Note: The pay freeze would not affect military personnel.

THE GLOBE AND MAIL | SOURCES: ASSOCIATED PRESS; U.S. BUREAU OF ECONOMIC ANALYSIS

- National Bank of Greece SA, Greece's largest lender by assets, reports its nine-month net profit to September 30th. declined by 74% on sharply higher provisions for bad loans, citing: "Despite the exceptionally adverse economic climate in Greece, the NBG Group continued to generate profits in what is proving to be a very tough year, maintaining strong liquidity and an enhanced capital base."
- According to the German newspaper Der Spiegel (The Mirror), U.S. Secretary of State Hillary Clinton signed a directive on July 31, 2009 ordering American diplomats "to spy on other countries' diplomats at the United Nations ... and collect personal credit card information; e-mail and telephone accounts; passwords and personal encryption keys such as fingerprints; passport photos and iris scans."
- The State of Illinois begins marketing a \$1.46 billion (U.S.) bond issue that will allow the financially distraught State to use future payments from a legal settlement with tobacco companies to pay its bills. The bonds are being issued through a special purpose vehicle called the Railsplitter Tobacco Settlement Authority and are backed by payments from a 1998 legal settlement that 46 states signed with tobacco producers to cover medical costs associated with diseases caused by tobacco use. Pricing of the new issue is expected on Wednesday. In addition to Illinois there are 11 other states which risk default or the need for a government bailout: California, Michigan, New Jersey, New York, Nevada, Florida, Connecticut, Massachusetts, Ohio, Wisconsin and Pennsylvania.

US State 5-Year CDS Prices (BPS)



Source Bespoke Investment Group

- To insure \$100,000 (U.S.) of 5-year Illinois bonds, an investor must pay \$2,913 (U.S.) per annum. In other words, an investor needs a coupon rate of at least 3% per annum, just to break even, the inherent credit risk factor, notwithstanding.

TUESDAY, NOVEMBER 30TH

- The Conference Board's U.S. consumer confidence index rose to a reading of 54.1 in November from a revised level of 49.9 in October, previously reported as 50.2, as consumers take advantage of retailer discounts in early Christmas season shopping
- Statistics Canada reports the nation's gross domestic product (GDP) rose by 1% during the 3rd. quarter, following a revised growth rate of 2.3% in the 2nd. quarter and 5.6% in the 1st. quarter, citing a currency-fueled decline in exports and a drop in housing investment, even as overall consumer spending remained relatively steady

- The Institute for Supply Management-Chicago Inc. reports its business gauge rose to a reading of 62.5 in November, as exports increased and domestic companies invested in new equipment
- The S&P/Case-Shiller index of home values in 20 U.S. cities rose by 0.6% in September from the same month in 2009. The index declined by 0.8% from August, after adjusting for seasonal variations, the biggest drop since April, 2009
- In a corporate restructuring plan, National Bank Financial announces 35 staff layoffs in its investment banking, research, sales and trading departments, representing 14% of the total staff in equities and investment banking
- Eurostat reports the seasonally adjusted unemployment rate in the euro zone rose slightly to 10.1% in October from 10% in September, citing the pressure on governments as they attempt to reduce budget deficits

WEDNESDAY, DECEMBER 1ST

- The co-chairmen of U.S. President Obama's National Commission on Fiscal Responsibility and Reform release a revised \$3.8 trillion (U.S.) debt reduction plan, as panel members are unable to reach a consensus to cut entitlements and benefits; as well as eliminate tax breaks. The proposal requires agreement from 14 of the 18 commission members, in order to send the non-binding recommendations to Congress for consideration and debate. A panel vote, which had been scheduled for today, was delayed until December 3rd.
- The CIPS/Markit purchasing managers index rose to a reading of 58.0 in November from an upwardly revised level of 55.4 in October, citing an accelerated pace of manufacturing activity in Great Britain resultant from a strong surge in orders
- ADP Employer Services reports private employment in the U.S. rose by 93,000 in November, following an upwardly revised 82,000 total in October, citing increased hiring at small businesses
- The Tempe-Arizona based Institute for Supply Management U.S. factory index declined slightly to a reading of 56.6 in November from 56.9 in October

- In a speech at the University Club of New York, Paul Volcker, Chairman of President Obama's Economic Recovery Advisory Board warns: "The growing question is whether the exceptional role of the dollar (as a global benchmark currency) can be maintained. This is a troubling time for America, a troubling time for the world. If ever there were a need for clear-headed, confident leadership nationally and internationally, that time is now ... The American example no longer inspires other countries to trust U.S. leadership. The American (political) system is hobbled by lobbyists and an unwillingness to pass realistic budgets; as well as a civil service that has lost its ability to attract America's best and brightest to public service. The growing sense around much of the world is that we have lost both relative economic strength and more importantly, we have lost a successful, coherent governing model to be emulated by the rest of the world. Instead, we're faced with broken financial markets, underperformance of our economy and a fractious political climate."
At Long Wave Analytics, we agree with Mr. Volcker's current assessment of America's status in the world, but we observe that he is a lone voice crying in the wilderness, who can expect no meaningful leadership out of the White House during the next two years. See also, Winter Warning, March 16, 2009 – Having Looked to Government for Bread, on the Very First Scarcity, They Will Turn and Bite the Hand That Fed Them
- Ford Motor and General Motors (GM) report increases in U.S. vehicle sales in November of 20% and 11.4%, respectively. Jim Bunnell, a GM executive who oversees the company's dealer network and sales commented: "Consumers are still cautious, but we're starting to see people show an inclination to come back into dealerships and go back into (auto) malls."
- In its periodic "Beige Book" economic update, the Federal Reserve reports the U.S. economy gained strength across much of the country as hiring improved, manufacturing expanded and retailers anticipated stronger holiday season sales. Five Fed banks, including Boston and San Francisco, related the economy grew "at a slight to modest" rate, while five others, including New York and Chicago, reported a "somewhat stronger pace of economic activity." Economic conditions were reported as "mixed" in the Philadelphia and St. Louis regions.
- The U.S. Labor Department reports initial claims for state unemployment benefits rose by 26,000 to 436,000 in the week ended November 27th. while continuing claims increased by 53, 000 to a seasonally adjusted 4.27 million in the week ended November 20th.
- In a Globe and Mail article entitled: Sadly No Surprises in Wikileaks' Russia Chatter, reporter Carl Mortished "confirms what we already know or strongly suspect ... that Russia is a virtual mafia state presided over by Prime Minister Vladimir Putin, who is running a corrupt autocracy and who is said to be personally enriching himself with oil deals."
As previously queried in The Week That Was, why would the United States and the European Union support or encourage Russian membership in the World Trade Organization (WTO)?
- Thomson Reuters reports U.S. retailer same-store sales rose by an average of 6% in November, the biggest increase since 2007, excepting a 9.2% gain in March of this year. John Long, a retail strategist at the consulting firm Kurt Salmon Associates commented: "It's difficult to say whether the promotions we saw in November, particularly early on in the month, pulled forward some of the volume we would be expecting to see in December."
- According to the Business Insider / Money Game newsletter, the following 15 world cities were (financially) destroyed by the economic downturn:
 1. Dublin, Ireland
 2. Dubai, United Arab Emirates
 3. Barcelona, Spain
 4. Thessaloniki, Greece
 5. Las Vegas, United States
 6. Valencia, Spain
 7. Riga, Latvia
 8. Johannesburg, South Africa
 9. Madrid, Spain
 10. Athens, Greece
 11. Porto, Portugal
 12. Atlanta, United States
 13. Tallin, Estonia
 14. Indianapolis, United States
 15. Sofia, Bulgaria

THURSDAY, DECEMBER 2ND

- The National Association of Realtors reports U.S. pending sales of existing homes rose by a record 10% in October, following a decline of 1.8% in September, citing low mortgage rates and reduced prices in some regions

The 15 cities experiencing an awesome recovery:

1. Istanbul, Turkey
2. Shenzhen, China
3. Lima, Peru
4. Singapore

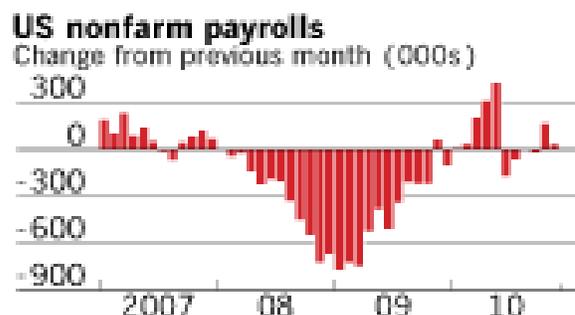
5. Santiago, Chile
6. Shanghai, China
7. Guangzhou, China
8. Beijing, China
9. Manila, Philippines
10. Rio de Janeiro, Brazil
11. Hyderabad, India
12. Mumbai, India
13. Bangalore, India
14. Melbourne, Australia
15. Guadalajara, Mexico

- Irving Picard, the trustee for the victims of Bernard Madoff's ponzi scheme, sues JP Morgan Chase for \$6.4 billion (U.S.), alleging the bank should have been alerted by "clear, documented suspicious" cash transfers through Mr. Madoff's accounts and recognized them as hallmarks of a ponzi scheme. After the case was filed in United States District Court in Manhattan, David Sheehan, a lawyer for the trustee issued a statement: "JP Morgan was willfully blind to the fraud, even after learning about numerous red flags surrounding Madoff." JP Morgan asserted that the trustee's complaint: "blatantly distorts both the facts and the law in an attempt to grab headlines. Contrary to the trustee's allegations, JP Morgan did not know about or in any way assist in the fraud orchestrated by Mr. Madoff."

FRIDAY, DECEMBER 3RD

- The National Commission on Fiscal Responsibility and Reform fails to achieve the 14 votes from its 18-member presidential panel, necessary to forward its non-binding, deficit reduction and tax reform recommendations to the U.S. Congress for consideration and debate. Only 11 members of the bipartisan Commission voted in favour of the 7-month study. The focus now shifts to the White House, where President Obama must decide how much of the Commission's report he will include in his budget proposals for fiscal 2012. As we have forewarned, political gridlock is alive and well; and living in Washington, D.C.
- In a CNBC interview, former Federal Reserve Chairman Alan Greenspan warns: "I think the European Central Bank (ECB) faces a terrible problem, because its measures to combat the European Union (EU) debt crisis make it easier for member countries to defer cutting budget deficits. To the extent that the ECB increases its purchases of bonds of the various, different countries, it of necessity takes the pressure off the political system within those countries to do what has to be done."

- The U.S. Labor Department reports total non-farm payrolls increased by only 39,000 in November following a revised 172,000 increase in October; while the unemployment rate rose to 9.8%, the highest level since April



- The Commerce Department reports U.S. factory orders declined by 0.9% in October, following an upwardly revised 3% gain in September. Separately, orders for durable goods (intended to last at least 3 years) fell by 3.4%.
- Statistics Canada reports the nation's unemployment rate declined to 7.6% in November from 7.9% in October, citing a growing number of young workers are abandoning their search for jobs, while the number of part-time jobs is increasing
- The Royal Bank of Canada reports a \$1.12 billion (CAD) net profit in the fourth fiscal quarter ended October 31st. In a conference call, Chief Executive Officer Gord Nixon stated: "With the exception of our U.S. bank, I am very pleased with the strong results in each of our business divisions. Canadian banking had record earnings for the year and we had solid business growth in our wealth management and insurance segments."
- South Korea and the United States strike a free trade agreement that has languished for more than three years. After days of negotiations in Maryland, diplomats agreed upon several revisions, including an increase in the American car exports to Korea to 25,000 per carmaker.
- Standard & Poors (S&P) places Greece's BB (High) sovereign debt credit rating on "credit watch with negative implications," meaning the agency could decide on a downgrade within three months, over concerns whether Athens can meet its budget reform targets
- According to Chicago-based Challenger, Gray and Christmas Inc., U.S. employers announced plans in November to cut 48,711 jobs, the most in eight months, citing increased planned firings by government agencies

- In an interview with the Washington Post, Senator Bernard Sanders (I-Vt.), a long time Federal Reserve critic, remarked: "The American people are finally learning the incredible and jaw-dropping details of the Fed's multi-trillion dollar bailout of Wall Street and corporate America. Perhaps, most surprising is the huge sum that went to bail out foreign private banks and corporations. As a result of this disclosure, other members of Congress and I will be taking a very extensive look at all aspects of how the Federal Reserve functions."

See also, Winter Warning, September 14, 2009 – Behold A Pale Horse and He Who Sat Upon Him Was Named Death, and Hell Followed With Him

CLOSING LEVELS FOR FRIDAY, DECEMBER 3RD. WEEKLY CHANGE

Dow Jones Industrial Average 11,382.09
+ 290.09 points

Spot Gold Bullion (February) \$1,406.20 (U.S.)
+ \$42.45 per ounce

S&P / TSX Composite 13,178.95
+ 286.24 points

- According to The King Report: "The intense political pressure on Federal Reserve Chairman Ben Bernanke and the Fed (itself) has forced Mr. Bernanke to appear on CBS "60 Minutes" on Sunday, in an attempt to curry favour with politicians. It certainly won't be to tell the truth to the American people. The Fed and its apologists, mostly those dependent upon Fed largesse, initially used the excuse that divulging who received Fed / taxpayer bailouts could create a run on those entities. That run has not occurred. The Fed won't release the details of the almost \$900 billion (U.S.) of assets that it bought, or is warehousing for banks and selected firms. Once again, the excuse is the revelation could create a run on those firms. This, of course, is another Fed lie: but it is closer to the truth. The reason the Fed won't reveal its portfolio is: it is probably holding such poor quality paper that some type of run, or confidence crisis, on the Fed could materialize."

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