UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

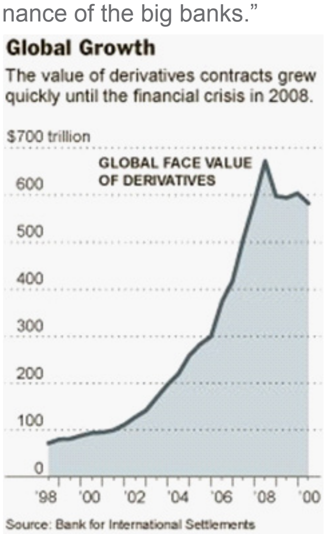
Monday, December 13TH

In an interview with the German newspaper Bild am Sonntag (Sunday Picture), Germany's Finance Minister Wolfgang Schaeuble warned:

MONDAY, DECEMBER 13TH

"Those who bet their money against the euro will have no success because the euro won't fail. All those responsible in Europe agree: the euro is to all our advantage and that's why we will successfully defend it."

- In a New York Times article entitled A Secretive Banking Elite Rules trading in Derivatives, reporter Louise Story reveals: "On the third Wednesday of every month, the nine members of an elite Wall Street committee convene in midtown Manhattan. Committee members share a common goal: to protect the interests of big banks in the vast derivatives market. In theory, this committee exists to safeguard the integrity of the multitrillion dollar derivatives market. In practice, it also defends the dominance of the big banks."



According to a Department of Justice spokeswoman: "the Department's antitrust unit is actively investigating the possibility of anticompetitive practices in the credit derivatives clearing, trading and information services industries." Representatives from the nine banks which dominate the derivatives market declined to comment on the Department of Justice investigation.

- In a recent Barron's article entitled Blame the Fed, reporter Shlomo Maital notes that "from 2001 to 2005, former Federal Reserve Chairman Alan Greenspan helped create an unsustainable housing bubble through credit expansion and administered interest rate cuts that ultimately led to the global credit crisis of 2008. Mr. Greenspan denied this charge in an essay published earlier this year by the Brookings Institution: 'I fear that preventing bubbles will in the end turn out to be infeasible. Assuaging their aftermath seems the best we can hope for.' The current Fed Chairman took up the theme preaching: 'The Fed cannot reliably identify bubbles in asset prices.' Both Greenspan and Bernanke are fundamentally wrong on both counts. The Fed can anticipate asset bubbles and excess financial leverage because it bears much of the responsibility for creating both and it can forestall them by changing its misguided policies." At Long Wave Analytics, we agree with Mr. Maital's observations and conclusions. We have long thought that Mr. Greenspan couldn't identify a bubble if he were seated in a bubble bath. 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.

- A refection upon a quote from the late U.S. President Thomas Jefferson: "I believe that banking institutions are more dangerous to our liberties than standing armies. If the American people ever allow private banks to control the issue of their currency, first by inflation, then by deflation, the banks and corporations that will grow up around the banks will deprive the people of all property – until their children wake up homeless on the continent their fathers conquered."

TUESDAY, DECEMBER 14TH

- According to the King Report, yesterday's Senate / White House compromise agreement "extends expiring Bush tax cuts, extends unemployment benefits by 13 weeks, cuts the payroll tax by 2% and allows companies to write off 100% of capital investments through 2010 and resurrects other tax benefits for corporations." This agreement represents a triple blow for the U.S. deficit. At a time when the VAT in Britain will reach 20% on January 1st. Americans are effectively still cutting taxes. Millions of Americans believe that their economy can continue to grow while carrying a $14 trillion (U.S.) national debt burden. This incredible mindset is truly mind-boggling.

WEDNESDAY, DECEMBER 15TH

- In recent interviews with reporters Dylan Radigan (CNBC) and Fareed Zacharias (CNN), David Stockman, former director of the U.S. Office of Management and Budget during the Reagan administration commented: "We have had a Fed engineered serial bubble, that has created the appearance of wealth, that has caused people to consume beyond their means through borrowing, and that has flushed the income and wealth of our society up to the top, as a result of the Fed turning the financial markets into a casino. These are pure casinos, they are not capital markets, they are not adding to the productive capacity of our economy, they are simply a bunch of robots trading with each other by the millisecond as a result of the Fed giving them zero cost overnight money and giving them all kinds of hand signals on what to front-run. The Fed is destroying prosperity by funding demand that we can't support with earnings and productions, causing massive current account deficits and the flow of funds overseas; and the buildup in China, OPEC and Korea of massive U.S. dollar reserves which is a totally unsustainable, unsupportable system, and we are coming near the edge of where that can continue to remain stable." Mr. Stockman knows whereof he speaks. At Long Wave Analytics, we agree with his assessment of current Fed monetary policy.

THURSDAY, DECEMBER 16TH

- The Office for National Statistics reports the U.K. unemployment rate rose to 7.9% in the 3rd. quarter from 7.8% in the previous quarter, citing the highest rate in the last six months with 2.5 million people out of work. Chris Grayling, U.K. Employment Minister, commented: "It's essential to create a stable environment where businesses can flourish and create jobs – with those on benefits at the front of the queue to take them up."

FRIDAY, DECEMBER 17TH

- In a speech focused on interest rates, People's Bank of China Governor Zhou Xiaochuan stated: "China will gradually make interest rates more market-determined and that interest rate liberalization can improve the allocation of resources." Citing the Governor's remarks, the China Daily newspaper commented: "The government is taking a very prudent approach to increasing interest rates because of an unstable and rapidly changing global (economic) situation."

CLOSING LEVELS FOR FRIDAY, DECEMBER 17TH. WEEKLY CHANGE

Dow Jones Industrial Average	11,491.91	+ 109.82 points
Spot Gold Bullion (February)	$1,379.20 (U.S.)	– $27.00 per oz
S&P / TSX Composite	13,201.36	+ 22.51 points
U.S. Treasury 10-Year Yield	3.30%	unchanged

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