

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



Monday, February 7th

The TD Bank and the CIBC raise their 5-year fixed mortgage rate to 5.44% from 5.19%

MONDAY, FEBRUARY 7TH

- German factory orders decline by 3.4% in December
- According to the Globe and Mail, the U.S. Federal Deposit Insurance Corp. (FDIC) plans to propose that American bank executives at the nation's largest financial institutions defer half of their annual bonuses for at least 3 years
- According to figures compiled by the World Gold Council, Chinese retail demand for gold increased by 70% from October 2009 to September 2010, representing a total of 153.2 tonnes of gold imports. During the same period, Chinese demand for gold jewelry rose by only 8%. According to a recent report by Sprott Asset Management: "There is a clear trend developing for Chinese investment in gold as a monetary asset, and China is buying so much gold for investment purposes that it now threatens to supersede India as the world's largest gold consumer. Chinese demand (for all of) 2010 is expected to reach approximately 600 tonnes, just behind India's 800 tonnes. To put that in perspective, 2010 world mine production is forecast to be 2,652 tonnes, which means China and India could collectively lock-up over half of global annual production."
- Statistics Canada reports the nation's building permits rose by 2.4% in December to a value of \$5.7 billion (CAD), citing higher construction intentions for multi-family dwellings in Ontario. In the residential sector, the value of building permits rose by 21.2% to a value of \$3.8 billion (CAD).
- In a Globe & Mail op-ed entitled Regulatory Overkill Is Killing America, Gwynn Morgan laments: "Business Roundtable, an association of U.S. chief executives of major companies has compiled a report providing a roadmap to eliminate what are, in President Obama's words: 'regulations that conflict, that are not worth the cost, or that are just plain dumb.' But even if regulations are improved, it won't help much unless an equally serious problem is addressed: overzealous, witch-hunting, empire building regulators. Many a U.S. regulator has gained career-boosting fame from vindictive efforts to bag big corporate game even if the initial allegations aren't sustained after costly and protracted litigation. U.S. political rhetoric keeps on blaming China for the country's downward slide, but the real culprits can be found by looking in the mirror." See Winter Warning, Nov. 10 /08 – The More Corrupt a Republic, the More Laws

TUESDAY, FEBRUARY 8TH

- The U.K. Government raises its levy on bank balance sheets by 800 million pounds (\$1.3 billion U.S.), bringing the total amount raised under the levy to 2.5 billion pounds. In an interview with BBC Radio 4, Chancellor of the Exchequer George Osborne commented: "The decision was a good-faith move designed to ensure banks are fully aware of their operating environment as they prepare to announce bonus payments in coming weeks."

WEDNESDAY, FEBRUARY 9TH

- In a speech in Newark, New Jersey, Jeffrey Lacker, President of the Federal Reserve Bank of Richmond, suggests the Federal Reserve Open Market Committee (FOMC) should seriously re-evaluate the pace and overall size of its quantitative easing program (QE2): "The distinct improvement in the U.S. economic outlook since the bond-buying program was initiated, suggests taking that re-evaluation quite seriously."
- Former SAC Capital Advisors LP junior portfolio managers Noah Freeman and Donald Longueuil are charged with insider trading while working at the \$12 billion (U.S.) hedge fund in New York, stemming from the 16-month investigation by federal prosecutors
- In a press release, the 3M Company announces a \$9 billion (U.S.) share repurchase plan and increases its annual dividend by 5% to 55 cents per share
- In a further attempt to counter rising inflation, the People's Bank of China increases its one-year benchmark lending rate to 6.06% from 5.81%; while the one-year deposit rate rises to 3% from 2.75%
- British Columbia Finance Minister Colin Hansen announces the Province will join Quebec and Alberta in opposition to the creation of a national securities regulator, when the Supreme Court of Canada considers the issue this spring, citing his government's disapproval of the legislative approach being undertaken. In a press release, Mr. Hansen stated: "While we continue to support the concept of a national securities regulator, our support is not without conditions."
- According to the Associated Press (AP) monthly analysis, U.S. home foreclosures rose in 33 states in December, most sharply in Utah, New Jersey, Nevada and Arizona. The AP index calculates an economic stress score from 1 to 100 based upon unemployment, foreclosure and bankruptcy rates, with a higher score signaling more economic stress. For all of 2010, the AP index recorded economic stress easing in every state but five: Colorado, Florida, Georgia, Nevada and Utah.
- U.S. Treasury note and bond yields continue to rise all along the maturity spectrum despite the Fed's perseverance with its \$600 billion (U.S.) quantitative easing program, colloquially termed QE2. U.S. Treasury 5-year notes now trade at a 2.41% yield basis; 10-year bonds at 3.75% and 30-year bonds at 4.77%
- According to Bloomberg News, Deutsche Boerse is in advanced talks to buy NYSE Euronext in an all-stock transaction that would create the world's largest stock exchange operator. The combined organization would be home to publically traded companies worth about \$15 trillion (U.S.) or, 28% of global stock market value.
- PetroChina International Investment Co. agrees to pay \$5.4 billion (CAD) for a 50% natural gas investment with Encana Corp. in a joint venture on its Cutback Ridge assets. Those assets currently produce 250 million cubic feet of gas per day, but have one trillion cubic feet of reserves underlying 250 thousand hectares of land in the Dawson Creek area of British Columbia.
- TMX Group Inc. which operates Canada's biggest stock exchanges, plans to merge with London Stock Exchange PLC making a combined market value of \$6 billion (CAD) and melding the world's premier mining markets. TMX operates the Toronto and Venture Stock Exchanges and the Derivatives Exchange in Montreal and is heavily weighted in resource listings. On London's benchmark FTSE 100 Exchange, about 34% of the listings are mining and energy companies.
- U.S. House of Representatives Republicans declare they are concerned about the unfolding fiscal crisis in state and local finances, but ruled out federal bailouts for states. Rep. Patrick McHenry (R-NC), chairman of a House Oversight subcommittee, also warned about a lack of transparency for public pension plans and remarked: "Congress must understand the magnitude of the pension problem."
- Standard & Poors cuts New Jersey's credit rating to 'AA' (Low) from 'AA' citing: "concern regarding the stresses from the state's poorly funded pension system, substantial post-employment benefit obligations and above average debt levels"
- Portugal's 10-year bond yield soars to a record 7.35% – the highest yield since the launch of the euro in January 1999 and a level regarded by many as unsustainable for the country's struggling economy. Richard McGuire, an interest rate strategist with Rabobank, commented: "Once again we're back into this lull where they (European Union policymakers) have promised something and they haven't given (any) details. I think the (bond) market will become increasingly concerned about this, exactly as they did about (financial bailout) packages for Greece and Ireland."

- The International Monetary Fund's (IMF) deputy managing director, Naoyuki Shinohara, warns: "Japan's outstanding debt and fiscal deficit are not sustainable over the medium and long term. It is important (for Japan) to establish a national consensus at the earliest possible time and form a concrete agreement to achieve fiscal rehabilitation."
- According to the Washington Post, included in the budget request which U.S. President Barack Obama will submit to Congress next week, is a proposal that would allow states that have borrowed billions of dollars from the federal government to cover the cost of unemployment benefits, to suspend interest payments on those debts for the next two years. Such an initiative would enable the affected states to postpone increasing corporate tax rates until 2014.

THURSDAY, FEBRUARY 10TH

- The U.S. Treasury reports the federal government posted a budget deficit of \$49.8 billion in January, compared with a \$42.6 billion shortfall in January 2010. For the fiscal year to date, the federal deficit totaled \$418.8 billion, or on an annual pace of \$1.256 trillion. At a town hall event in Washington yesterday, U.S. Treasury Secretary Timothy Geithner announced: "The Obama administration will soon release very detailed programs for curbing future deficits, and that the fiscal outlook is fundamentally manageable." Naturally, the proof will be in the pudding, but we are not holding our breath.
- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 36,000 to 383,000 in the week ended February 4th. while continuing claims fell by 47,000 to 3.89 million in the week ended January 29th. Figures for continuing claims do not include the number of workers receiving extended benefits under federal programs, which increased by 84,000 to 4.64 million in the week ended January 22nd.
- International Monetary Fund (IMF) Managing Director Dominique Strauss-Kahn suggests a greater role for China's yuan currency, as part of a broadly based reorganization of the international monetary system. In a speech at the IMF, Mr. Strauss-Kahn argued by adding emerging market countries' currencies to a basket of currencies that the IMF administers, could provide stability to the global system. He sees a greater role for the IMF's Special Drawing Rights (SDR), currently composed of the U.S. dollar, pound sterling, the euro and Japanese yen over time, but elaborated: "Increasing the role of the SDR would clearly require a major leap in international policy co-ordination."
- The Federal Home Loan Mortgage Corp. (Freddie Mac) reports U.S. mortgage rates rose to a 10-month high in the week ending today. The average rate for a 30-year fixed mortgage rose to 5.05% from 4.81% last week. The average 15-year mortgage rate increased to 4.29% from 4.08%.
- In a Globe and Mail op-ed, David Rosenberg, chief economist and strategist for Gluskin Sheff and Associates Inc. warns: "The United States is in a radical money-easing environment, in which the Fed is keeping (administered) interest rates artificially low, while pumping money into the economy. This type of policy breeds speculative (stock market) rallies. It inevitably results in boom-bust cycles such as the ones we saw in 1999-2002, 2006-2009 and today. This is no time for short memories. At best, the Fed has managed to create an illusion of prosperity, but it won't last. That should surprise no one who has followed the Fed's activities over the past couple of years ... The view that Washington can take care of everything will disappear with looming austerity, as state and local governments cut back on spending this year, followed by the federal government next year ... I have little doubt this cyclical bull (stock) market and stimulus-led economic expansion has been built with straws and sticks instead of bricks. Sure, there could be more upside to stocks over the next few months but, at this point, we are probably closer to the peak than many believe ... We have all seen how Fed-induced speculative bull (stock) markets end. We either end up with another cycle of wealth destruction down the road, or higher inflation. I see no other outcome."
- The European Central Bank (ECB) returns to the fixed income market buying Portugal's bonds as the country's 10-year bond yield rose to a euro era-high of 7.66%. The ECB had temporarily suspended its bond-buying program in mid-January.
- According to the U.K. Telegraph, the Spanish government is imposing draconian rules on its savings banks and is preparing for partial nationalization of the industry to restore confidence and bolster the country's defenses against contagion from the debt crisis in Portugal. The weaker banks (cajas) must raise Tier 1 core capital to 10% by September, if they depend upon wholesale capital markets for more than one-fifth of their funding, or if less than one-fifth of their shares are privately held. Failure to comply will result in the government seizing control of the bank through the state bailout Fund for Orderly Bank Reconstruction (FROB). At present, only 5 of the 17 cajas meet the 10% capital requirement.

- Following its 4-day annual legislative conference on Capitol Hill, the American Federation of Government Employees (the federal government's largest labour union) launches a \$1 million (U.S.) campaign across the country to fight looming cuts in the work force. John Gage, the outspoken union president, remarked: "We're acknowledging that it's our union that has to carry the story of federal workers. We're going to energize and activate 2 million federal employees and their families to let their representatives know these (job layoff) attacks will destroy (federal) agencies." The Union, whose 270,000 dues-paying members range from Defense Department custodians, to Environmental Protection Agency lawyers, plans a radio and newspaper campaign this month to promote the work force. The Union's efforts materialize about a week prior to President Obama's proposed fiscal 2012 budget is set for release, and union members are anticipating changes that will affect them.
- U.S. House of Representatives Appropriations Committee Chairman Hal Rogers (R-Ky) announces his intention to reduce federal government spending by \$100 billion (U.S.) from President Obama's 2011 budget request, bowing to pressure from conservative Republicans who had requested the sweeping spending cuts. Rep. Rogers elaborated: "Our intent is to make deep but manageable cuts in nearly every area of government, leaving no stone unturned and allowing no agency, or program to be held sacred. I have instructed my committee to include these deeper cuts and we are continuing to work to complete this critical legislation." The oft-referenced Republican "Pledge to America" states: "With common sense exceptions for seniors, veterans and our troops, we will roll back government spending to pre-stimulus, pre-bailout levels, saving us at least \$100 billion (U.S.) in the first year alone and putting us on a path to begin paying down the debt, balancing the budget and ending the spending spree in Washington that threatens our children's future." Let the Washington fiscal wars begin!
- In testimony to the House Budget Committee, Federal Reserve Board Chairman Ben Bernanke warns against sharp cuts in U.S. spending at a time when the economic recovery is still fragile enough to require extraordinary support from the central bank. At the same time, Mr. Bernanke warns about the lack of a long term plan to address unsustainable budget deficits. Mr. Bernanke also states immediate steep reductions in government outlays could compromise economic growth at a time when employment is just beginning to rebound: "The cost to the (economic) recovery would outweigh the benefits in terms of fiscal discipline. I think we really need to take a long-term view." Mr. Bernanke wouldst have it both ways. The problem is that unless the United States solves its short term debt problems, there won't be a prosperous long term.

FRIDAY, FEBRUARY 11TH

- The U.S. Treasury Department announces large sections of government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac should be dissolved over time, while the fees that the troubled mortgage giants charge for guaranteeing mortgages should be increased to gradually encourage the private sector back into the housing market. One long-term approach, supported by the Republican leadership, would create a virtually privatized system, significantly reducing the government's role in the mortgage market by only allowing the Federal Housing Administration (FHA) and two other agencies to guarantee some mortgages for low and moderate income borrowers who meet creditworthiness criteria
- The Commerce Department reports the U.S. trade deficit widened by 5.9% in December to \$40.6 billion (U.S.) from \$38.3 billion (U.S.) in November, citing higher imports of crude oil. For all of 2010, the U.S. trade deficit totaled \$497.8 billion (U.S.), up 32.8% from 2009.
- The Thomson Reuters / University of Michigan preliminary index of U.S. consumer sentiment rose to a reading of 75.1 in February from a level of 74.2 in January.
- Statistics Canada reports the nation's trade balance increased to a surplus of \$3 billion (CAD) in December from a deficit of \$115 million in November, citing: "Energy products accounted for over half the growth in the value of exports, followed by industrial goods and materials, machinery and equipment, agriculture and fish products, as well as forestry products."
- The B.C. Securities Commission (BCSC) levies tougher fines for securities fraud cases, especially against those operating in the "exempt" market for unregistered securities. In December, the BCSC ordered investment dealer Sung Wan (Sean) Kim to pay \$47 million (CAD) in penalties, after ruling he defrauded 36 investors from a Korean church in Vancouver. Earlier this week, the BCSC imposed penalties totaling \$7.3 million (CAD) against Luc Castiglioni, after concluding he falsely represented a company's registration status to investors, helping him raise a total of \$8.2 million (CAD) from 80 investors. BCSC executive director Paul Bourque commented: "The stakes have been going up and it's part of an approach we've taken here to be very aggressive in terms of (securities) frauds and misrepresentations."

- Vancouver-based Telus Corp. posts a net profit of \$227 million (CAD) in the 4th. quarter of 2010, compared to a profit of \$156 million (CAD) in the same period in 2009

CLOSING LEVELS FOR FRIDAY FEBRUARY 11TH.
WEEKLY CHANGE

Dow Jones Industrial Average	12,273.30	+ 181.15 points
Spot Gold Bullion (March)	\$1,360.40 (U.S.)	+ \$11.30 per oz
S&P / TSX Composite	13,766.80	- 25.00 points
10-Year U.S. Treasury Yield	3.64%	Unchanged
Canadian Dollar	101.30 cents (U.S.)	+ 0.06 cent

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

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