

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



Monday, February 14TH

China's trade surplus fell by 55% to \$6.45 billion (U.S.) in January, the third consecutive monthly decline and the smallest level since last April. The narrowing trade surplus was driven by sharply higher imports.

MONDAY, FEBRUARY 14TH

- U.S. President Barack Obama sends Congress a \$3.73 trillion (U.S.) budget proposal for the fiscal year ending September 30, 2012, including a deficit of \$1.1 trillion (U.S.). In the same breath, President Obama projects a record deficit of \$1.65 trillion (U.S.) for the current fiscal year and \$7.5 trillion (U.S.) of deficit spending over the next decade. President Obama's budget proposal focuses primarily on the short term; relying heavily on a consummate belief that American economic growth (GDP) will revive in abundance. No effort has been made to revise, let alone restrain the spiraling costs to Social security, or the medical entitlements to Medicare and Medicaid; not to mention the Department of Defense budget. Simultaneously, President Obama is giving short shrift to America's main creditors, notably China, Britain, Germany, Japan and France, by risking its coveted 'AAA' sovereign debt rating, as well as abusing its advantage of being the world's reserve currency. It would appear that the White House is more focused on the 2012 presidential election campaign than anything else. Caveat Imperator! At Longwave Analytics, we believe this budget proposal is based purely on wishful economic thinking, political dreaming and a blatant exudation of lack of leadership. See also, Winter Warning, February 16, 2011 – It's Still the Debt, Stupid
- The world's largest bond fund, Pacific Investment Management (Pimco), reduced its holdings of U.S Treasury securities to 12% of its \$239 billion (U.S.) Total Return Fund from 22% in January. The proportion of U.S. government-related holdings is at its lowest level since January 2009.

TUESDAY, FEBRUARY 15TH

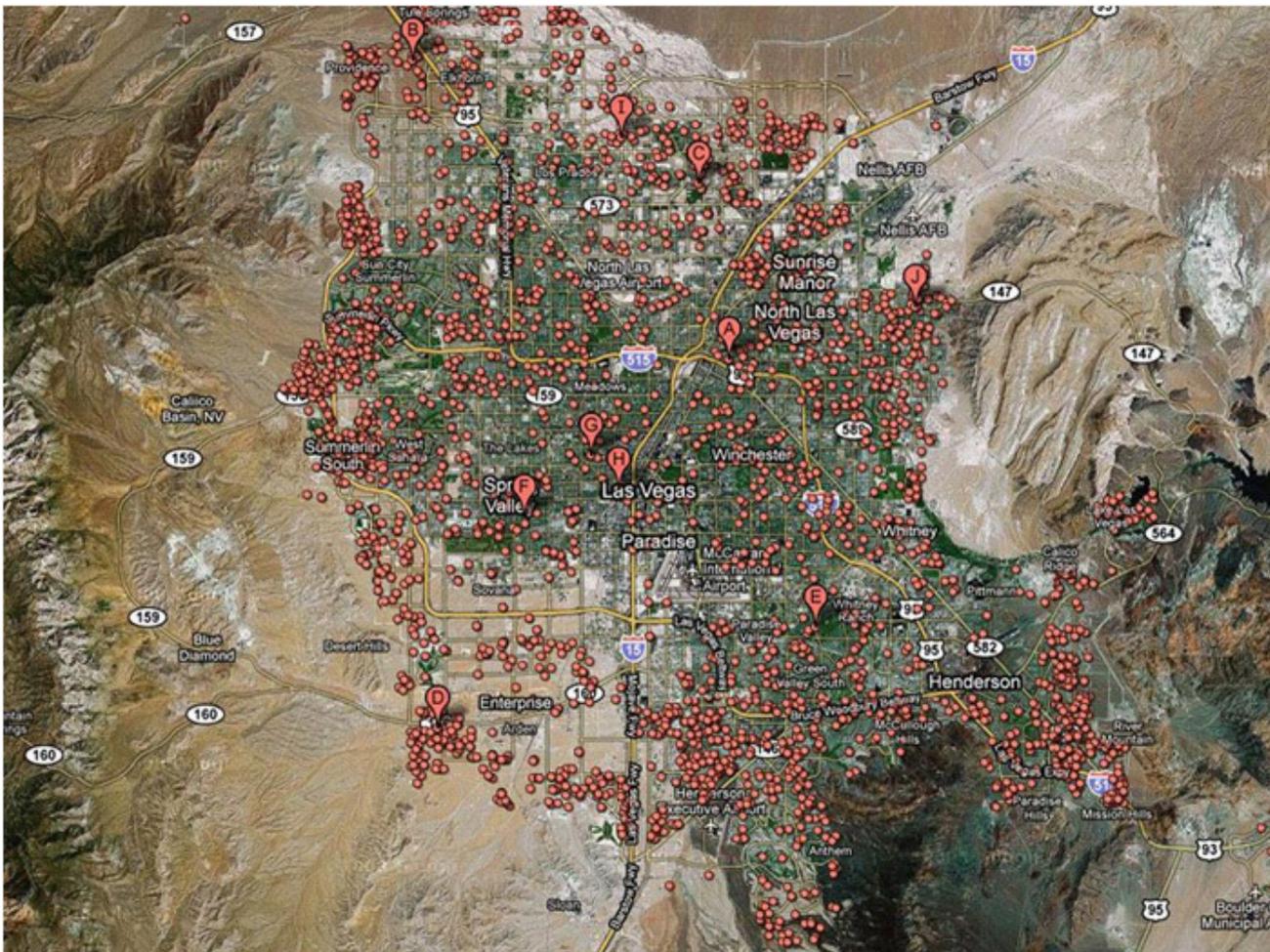
- The Commerce Department reports sales at U.S. retail stores rose by 0.3% in January, the smallest increase since July 2010, citing higher sales for gasoline, autos and online goods
- Union leaders warn the rewriting of rules for public and private sector unions being considered in Wisconsin, Ohio and at twelve other states threaten to accelerate the decline in membership nationwide and hurt organized labour's finances and political clout. Gerald McEntee, President of the American Federation of State, County and Municipal Employees (AFSCME), the nation's largest public employee and health care workers union, warns: "The proposals in Wisconsin and other states have great ramifications beyond the damage to union coffers and membership."
- Speaking at a news conference, U.S. President Barack Obama defends his budget proposal against criticism it was too timid and failed to address long term spending issues. While President Obama termed Medicare and Medicaid the biggest drivers of long term deficit growth, he observed: "The bipartisan debt commission's plan still provides a framework for discussion," even though his budget proposal excluded most of its recommendations. President Obama stated: "I am confident the political parties will come together to find a bipartisan way to rein in the growth of Social Security and Medicare, and to overhaul the tax code."
At Longwave Analytics, we do not share President Obama's optimism in this regard

- The U.S. Census Bureau reports that during the decade ended in 2010, Chicago's population fell by 6.9% to 2,695,598 people, fewer than the 2.7 million reported in 1920

WEDNESDAY, FEBRUARY 16TH

- The Labor Department reports the U.S. producer price index rose by a seasonally adjusted 0.8% in January, following a 0.9% increase in December, citing higher gasoline costs. The core rate, excluding food and energy, rose by 0.5% citing higher drug-related costs, marked the biggest gain since October 2008
- RealtyTrac reports 72% of major U.S. metropolitan areas experienced an increase in the volume of residential foreclosures during 2010. Although some of the worst affected regions in Nevada, California and Florida showed some improvement from 2009, the home foreclosure rate in these areas remains extremely high. (See graphic below).
Las Vegas, Nevada, where 1 in 9 homes is in foreclosure, as indicated by the red dots

- Borders Group Inc. files for reorganization under Chapter 11 of the U.S. bankruptcy code and plans to close 30% of its stores over the next several weeks. The Ann Arbor, Michigan-based retailer has arranged a \$505 million (U.S.) debtor-in-possession financing with GE Capital, as it undergoes bankruptcy proceedings in U.S. Bankruptcy Court, Southern District of New York
- The Federal Reserve reports U.S. industrial production declined by 0.1% in January, following an upwardly revised gain of 1.2% in December, citing a decline in utility usage as milder temperatures reduced demand for heat
- The Mortgage Bankers Association reports its index of U.S. mortgage applications declined by 9.5% in the week ended February 11th. to its lowest level since Nov. /08
- The Commerce Department reports U.S. housing starts rose by 15% in January to an annual level of 596,000 units, citing a surge in the construction of multi-family units



- Statistics Canada reports the nation's manufacturing sales rose by a seasonally adjusted 0.4% in December, offsetting November's 0.6% decline, citing higher prices for the increase as volume was lower by 0.5%
- Moody's Investors Service downgrades the credit ratings of Danske Bank and four other Danish lenders following last week's collapse of Amagerbanken: "The Danish government is now far less willing to continue to support bank creditors at the expense of taxpayers" than just a few months ago. Senior creditors and some depositors face a 40% "haircut" after Amagerbanken was seized by Finansiell Stabilitet, the government agency responsible for administering failed banks

THURSDAY, FEBRUARY 17TH

- The Labor Department reports the U.S. consumer price index (CPI) rose by 0.4% in January, citing higher prices for food and fuel; while the core rate (which excludes food and energy) rose by 0.2%, the biggest increase since October 2009
- The Labor Department reports U.S. initial claims for state unemployment benefits increased by 25,000 to 410,000 in the week ended February 12th. while continuing claims rose by 1,000 to 3.91 million in the week ended February 5th. The number of people who have exhausted their traditional benefits and are now receiving emergency and extended benefits under federal programs, declined by 85,000 to 4.5 million in the week ended January 29th.
- Statistics Canada reports the number of Canadians receiving regular unemployment insurance benefits decreased by 9,400 to 659,700 in December, the third consecutive monthly decline. The number of beneficiaries fell in every province and territory, except the Northwest Territories.
- Statistics Canada reports the nation's wholesale sales rose by 0.8% in December to \$45.9 billion (CAD), citing gains in six of the seven subsections, the fifth consecutive monthly increase. All provinces reported annual gains as wholesale sales rose by a cumulative 8% over 2009 to \$530 billion (CAD) in 2010.
- The minutes from the most recent Federal Open Market Committee (FOMC) meeting reveal the FOMC raised its economic forecast for 2011 to a range of 3.4% – 3.9% GDP growth from its previous range of 3% – 3.6%, citing stronger consumer spending, business investment and exports.
- Fitch Ratings announces a change in its analysis of state and municipal unfunded pension liabilities which could adversely affect the credit ratings of many governments. The changes to the way Fitch assesses pension liabilities come amid growing concern over the scale of municipal debt problems and the effect on state and city finances of generous, unfunded public pension plans that will be in place for many years. In a report, Fitch warns the new approach could lead to "limited negative rating action," particularly for local governments with large payroll commitments.
- Wisconsin's Republican Governor Scott Walker has brought down a contentious budget proposal for fiscal 2012, which would severely curtail collective bargaining rights and cut benefits for most public employees; in an attempt to eliminate a \$137 million (U.S.) budget shortfall and a state deficit that is projected to reach \$3 billion (U.S.) within two years. As 30,000 demonstrators descended on the State Capitol, rather than allow the budget debate to proceed, Democratic Senators failed to appear on the Senate floor, thereby denying the chamber a quorum.
- Moody's Investors Service downgrades German banks' subordinated debt securities valued at 24 billion euros (33 billion U.S.), citing new legislation will increase the risk of losses among debt holders. Moody's warns: "The new regulatory tools allow authorities to impose losses on debt holders, without necessarily placing the entire bank into liquidation. Moody's considers subordinated debt to be most at risk under the new law."
- According to figures in U.S. President Obama's new budget proposal, interest payments on the national debt will quadruple over the next decade. Commencing in 2014, net interest payments will surpass the amount spent on education, transportation, energy and all other discretionary programs outside defense. In 2018, they will outpace Medicare spending. Kenneth Rogoff, an economics professor at Harvard University and former chief economist at the International Monetary Fund (IMF) warns: "We're running a gigantic deficit and we're not growing very fast. We're on a dramatically unsustainable path." Benjamin Friedman, a Harvard economics professor and author of Day of Reckoning, warns: "I think it's a reminder that we have a very serious problem and the budget (proposal) that's on the table does not address that problem."
See also, Winter Warning, February 15, 2011 – It's Still the Debt, Stupid

- In a Rolling Stone article entitled: Why Isn't Wall Street in Jail? Journalist Matt Taibbi exhorts: "Nobody goes to jail is the mantra of the financial crisis era; one that saw virtually every major bank and financial company on Wall Street embroiled in obscene criminal scandals that impoverished millions and collectively destroyed hundreds of billions, in fact, trillions of dollars of the world's wealth – and nobody went to jail. Nobody, that is, except Bernie Madoff, a flamboyant and pathological celebrity con artist, whose victims happened to be other rich and famous people. The rest of them, all of them, got off. Not a single executive who ran the companies that cooked up and cashed in on the phony financial boom – an industry wide scam that involved the mass sale of mismarked, fraudulent mortgage backed securities – has ever been convicted."

- U.S. President Barack Obama's budget proposal includes a \$5.50 (U.S.) "passenger inspection fee" to be levied on every Canadian visitor who travels to America by air or sea. The fee would not apply to visitors arriving in private vehicles. Canadians, Mexicans and citizens of several Caribbean countries have been exempt from these fees since 1997. By cancelling the exemptions, the U.S. Department of Homeland Security estimates government revenues would increase by \$110 million (U.S.) a year and be used to support U.S. Customs and Border Protection's inspection functions. According to Statistics Canada, approximately 16.3 million passengers from Canada travelled via trans-border flights in 2009.

Wakeup call for U.S. President Obama: We don't recall this petty insult being mentioned when Canadian Prime Minister Harper visited Washington several days ago; amid all the political hand-shaking, open border pledging and international trade boasting that was occurring. Is this how America thanks Canadians for standing by her in the wars in Iraq and Afghanistan; for selling her every drop of crude oil that Canadians don't use; or for providing her with more tourist and vacation revenues than any other foreigners? America's debt and deficit problems were and continue to be, made in America! Why should Canadians pay a tariff, in the guise of a "passenger inspection fee," for America's home-grown debt burdens? Perhaps, it's because Americans don't even want to be taxed for their own country's current and accumulated debts, let alone anybody else's. Happy President's Day!

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FRIDAY, FEBRUARY 18TH

- The Federal Deposit Insurance Corporation (FDIC) closes Springfield, Georgia-based Citizens Bank of Effingham and Napa, California-based Charter Oak Bank, bringing the total number of U.S. bank failures to 21 in the first two months of the year
- Statistics Canada reports the nation's consumer price index (CPI) rose by 2.3% in January on a year-over-year basis, citing the moderating influence of a strong Canadian dollar and a continuing high unemployment rate of 7.8%
- By a vote of 235 to 189, the U.S. House of Representatives approves an aggressive plan to eliminate dozens of federal programs and offices, while cutting government agency budgets by as much as 40%, extracting more than \$60 billion (U.S.) in deficit savings. It was immediately rejected by Senate Democrats and President Obama. The Senate is expected to take up its version of the spending measure the first week of March, just prior to a March 4th. deadline when the current funding resolution expires. As Democrats push to keep spending at 2010 levels, for the remainder of this fiscal year, the two sides begin a grueling negotiation process more than \$60 billion (U.S.) apart.

CLOSINGS LEVELS FOR FRIDAY, FEBRUARY 18TH.
WEEKLY CHANGE

Dow Jones Industrial Average	12,391.30	+ 118.00 points
Spot Gold Bullion (March)	\$1,388.60 (U.S.)	+ \$28.20 per oz
S&P / TSX Composite	14,123.10	+ 356.80 points
10-year U.S. Treasury Yield	3.59%	– 5 basis points
Canadian Dollar	101.38 cents (U.S.)	+ 0.08 cent