Monday September 5th, 2011

LONGWAVE group

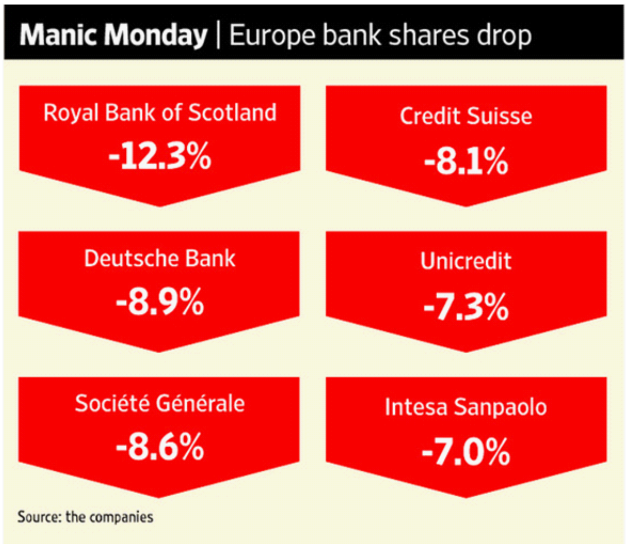
UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, September 5th

Front Page Headline, Wall Street Journal – "European Bank Shares Drop. Battered European banks suffer further steep share price declines as investors grow more concerned about the banks' accessibility to funds."

MONDAY, SEPTEMBER 5TH
Labour Day Holiday in Canada and the United States



- At a Frankfurt conference, Josef Ackermann, CEO of Deutsche Bank warns: "Numerous European banks would not survive having to revalue sovereign debt held on the banking book at market levels … All this reminds one of the autumn of 2008. A forced recapitalization (of European banks) would give the signal that politicians do not themselves believe in the measures" they have already implemented.

- In an interview with the German newspaper Der Spiegel, Christine Lagarde, Managing Director of the International Monetary Fund (IMF) warns: "The global economic outlook has darkened suddenly over the summer. There has been a clear crisis of confidence that has seriously aggravated the situation. Measures need to be taken to ensure that this vicious circle is broken. The spectrum of policies available is narrower because a lot of ammunition was used in 2009. But if government, institutions and central banks work together, we'll avoid recession." Doesn't Ms. Lagarde understand that the crisis of confidence is attributable to sovereign debt and creating more debt isn't going to solve the problem? It's going to compound it.

- In its lawsuit against Goldman Sachs, the Federal Housing Finance Agency (FHFA) claims that Goldman directly committed common law fraud and specifically "aided and abetted fraud." The FHFA seeks to recover damages it sustained as a result of Goldman's wrongdoing, including the $11.1 billion (U.S.) the agency paid for the securities, plus interest and legal fees. According to the Business Insider, the FHFA lawsuit alleges: "Because the information that Goldman provided, or caused to be provided (to ratings agencies) was false, the ratings were inflated … also, that Goldman Sachs knew, or was reckless in not knowing that it was falsely representing the underlying process and riskiness of the mortgage loans … because Goldman's long standing relationships with the problematic originators, and its numerous roles in the securitization chain, made it uniquely positioned to know the originators had abandoned their underwriting guidelines … as a result, the Government Sponsored Enterprises (GSE) paid Defendants inflated prices for purported 'AAA' (or its equivalent) Certificates, unaware that those Certificates actually carried a severe risk of loss and inadequate credit enhancement. (Moreover,) … that some Goldman's employees signed the 'shelf registration documents' registering the securities for multiple issuances with the Securities and Exchange Commission (SEC). The FHFA alleges that those employees made false statements and omitted facts." See also, Winter Warnings, February 15/10 – For the Love of Money and March 29/10 – A Rolling Stone Gathers No Moss.

TUESDAY, SEPTEMBER 6TH

- In an annual report of the United Nations Conference on Trade and Development (UNCTAD) entitled: Post-Crisis Policy Challenges in the World Economy, Secretary General Supachai Panitchpakdi warns: "The message here is very pragmatic; we need to reverse our course quickly. The (global) policy response to the (economic) crisis, with an emphasis on fiscal tightening is misconceived and inept." The report's lead author Heiner Flassbeck, a former deputy finance minister of Germany, warns: "The global economic situation is extremely dangerous and without more stimulus, a decade of (economic) stagnation is the best case scenario. If interest rates everywhere are at zero and if governments stick to the policy of, not only keeping fiscal deficits where they are, but also … cutting public expenditure, then we will end up in permanent recession."

- The Economics Ministry in Berlin reports German industrial orders declined by 2.8% in July, following a 1.8% increase in June, citing orders from other euro zone countries fell by 3.3% but domestic demand rose by 3.6%

- According to the Financial Times, big American banks in talks with U.S. state prosecutors to settle claims of improper mortgage practices have been offered a deal that is proposed to limit part of their legal liability in return for a multi-billion dollar payment. The talks aim to settle allegations that banks including Bank of America, JP Morgan Chase, Wells Fargo and Ally Financial seized the homes of delinquent borrowers and broke state laws by employing so-called "robosigners" – workers who signed off on foreclosure documents en masse without reviewing the paperwork. Effectively, state prosecutors have proposed releasing the companies from legal liability for allegedly wrongful securitization practices.

- Front Page Headline, New York Times – "U.S. Stock Markets Drop Sharply After Big Global Sell-Off. Wall Street slumps early following declines in Europe and Asia.

- In a Manchester Guardian article entitled "Why a Double-Dip Recession Looms", reporter Phillip Inman warns: "Investors have ignored the warning signs – but what does a double-dip recession mean for the economy and the public? Shops will suffer from a decline in consumer demand, as workers save rather than spend. This has already triggered a spate of shop discounts with more sales to come. But if you work in a shop, the construction industry or the public sector; or you depend on public services and benefits to maintain some semblance of a life, the downturn spells trouble. Even if you don't lose your job, there will be more wage freezes and redundancies will mean extra workloads. The U.K. government will suffer from lower tax revenues, as more people are put out of work and spend less. The Treasury will need to borrow more to make up for lost income. Borrowing more money to maintain services is where the government's problems first started in the 2008 recession."

WEDNESDAY, SEPTEMBER 7TH

- The Labor Department reports U.S. job openings increased by 59,000 to 3.23 million in July, however, the number of hirings declined by 74,000 to 3.98 million

- Canada falls to 12th. place – from 10th. place in 2010 – in a World Economic Forum ranking of business competiveness on a global basis. The Conference Board of Canada, which prepared the data for Canada's ranking, explained: "Canada has slid steadily from 9th. place in 2009 because other countries are improving their competitiveness, while Canada's score has remained basically unchanged over the past three years."

- Germany's constitutional court rules that German sponsorship of the bailouts of Greece, Ireland and Portugal were indeed legal. However, the court attached conditions that will make any future bailouts more complicated, by ruling that they must first be approved by the budget committee of the Bundestag (the German parliament).

- Based upon interviews with business contacts and economists in the 12-Federal Reserve districts across the U.S., the Fed's latest Beige Book report cites economic weakness infecting sectors such as manufacturing, with seven of the districts reporting some form of weakening economic activity

- In a U.K. Daily Telegraph feature article entitled: Doomed to Depression? The West is Staring into an Economic Abyss Deepened by Political Paralysis – but Britain Must Stick to its Course, reporter Jeremy Warner opines: "Europe is in disarray, stock markets are plunging, the banking crisis is back in full swing, gold is at record levels and both the U.K. and the U.S. are self-evidently slipping back towards recession. Not since the autumn of 2008have things looked quite so ominous. We appear to be at another pivotal moment, with Western economies once more staring into the abyss. At a conference in Frankfurt this week, Josef Ackermann, chief executive officer of Deutsche Bank, compared events to the Lehman Brothers catastrophe of 2008 and warned that many banks in Europe are essentially bust. His opposite number at KfW went further still and said that the present cocktail of negatives was 'much more dramatic than 2008.' Back then, governments and central banks still had the financial firepower and the will to attack the problem with massive injections of fiscal and monetary stimulus.
  Today, the fiscal armoury is exhausted, while it is not clear that further monetary easing through the printing presses of quantitative easing would have any positive effect beyond the negative of adding to inflation. Indeed, the parallels look alarmingly closer to the banking collapses of 1931, which plunged the world into a prolonged depression, than the storms around the Lehman collapse. It took Europe over 40 years of economic and political turmoil to recover from the extreme over-indebtedness it imposed upon itself in the folly of the First World War. Much as today, creditors and debtors tore each other apart economically, by attempting to find a political form of burden-sharing. We all know how the currency and trade wars of that era ended. (The Second World War). According to the Russian economist Nicolai Kondratiev, there is a much longer economic cycle of fast and slow (economic) growth lasting between 40 and 60 years, which overlays the short term business cycle. Not many modern economists believe in this theory, but it correlates quite accurately with the pattern of recent European history. We can still hope that he was wrong, but that's not the way it looks right now."

- Front Page Headline, U.K. Daily Telegraph – "Gold Is Last Safe Haven As Swiss Escalate Currency War. Switzerland abandons its floating exchange rate, setting a floor against the euro to counter safe-haven flight from euro zone debtors." David Bloom at HSBC noted: "The market must fear this will lead to an escalation in currency wars."

- The Economy Ministry in Berlin reports German industrial production rose by 4% in July – the biggest gain since March 2010 – following a decline of 1% in June

THURSDAY, SEPTEMBER 8TH

- The Commerce Department reports the U.S. trade deficit narrowed by 13.1% to $44.8 billion (U.S.) in July from a revised $56.1 billion (U.S.) in June

- The Labor Department reports U.S. claims for state unemployment benefits rose by 2,000 to a seasonally adjusted 414,000 in the week ended September 3rd. while continuing claims declined by 30,000 to 3.72 million in the week ended August 27th. Those people who have exhausted their traditional benefits but are now receiving emergency or extended benefits through federal programs declined by 167,009 to about 7.17 million in the week ended August 20th.

- At a Frankfurt press conference, European Central Bank (ECB) President Jean-Claude Trichet warns: "The euro zone economy faces particularly high uncertainty and intensified downside risks. While monetary policy is still accommodative, financing conditions have worsened in parts of the 17-member euro region and the ECB stands ready to pump more cash into markets if needed." While leaving its benchmark lending rate unchanged at 1.5%, the ECB lowered its 2011GDP forecast to 1.6% from 1.9% and to 1.3% from 1.7% for 2012.

- Statistics Canada reports the nation's trade deficit narrowed to $753 million (CAD) in July from $1.4 billion (CAD) in June, citing increased exports of $37.3 billion (CAD) including machinery and equipment, automotive products and industrial goods

- The Organization for Economic Co-operation and Development (OECD) warns: "The economic recovery in the U.S. and rich nations in Europe will stagnate, or go into reverse by the year end, under the weight of government belt tightening and falling consumer and business confidence. The U.S. economy will grow at only a 0.4% annualized rate in the 4th. quarter; while the three largest economies in the euro zone will contract by 0.4% during that period."

- Front Page Headline, Financial Times – "Obama in $450bn (U.S.) Push for Economic Growth. Jobs plan emphasizes tax cuts in bid to win over Republicans."

- Front Page headline, Times of London – "U.S. Authorities Warn of 'Credible' Terror Threat. President Obama orders counter terrorism officials to redouble efforts."

LONGWAVE group

- In a speech to the Economic Club of Minnesota, Federal Reserve Board Chairman Ben Bernanke warns: "Politicians on Capitol Hill must construct a plan to tackle America's long-term deficit without jeopardizing the fragile economic recovery. Last month's debacle over raising the country's $14.3 trillion (U.S.) debt ceiling and the European debt crisis have combined to undermine growth in the world's biggest economy. I do not expect the long-run growth potential of the U.S. economy to be materially affected by the financial crisis if – and I stress if – our country takes the necessary steps to secure that outcome … Despite the recent easing in inflation, U.S. consumers – the driving force of the country's economy – remain fearful. Even taking into account the many financial pressures they face, households seem exceptionally cautious."

FRIDAY, SEPTEMBER 9TH

- Canada Mortgage and Housing Corp. (CMHC) reports the nation's housing starts declined to a seasonally adjusted annual pace of 184,700 units in August, following a rate of 204,500 in July

- According to the San Jose Mercury News, agents from the Federal Bureau of Investigation (FBI) have raided the offices of Solyndra – the now bankrupt solar energy company – that the Obama administration helped secure $500 million (U.S.) in federally-backed loans through the Department of Energy last April

- In a statement released during talks in Marseille, France, G-7 finance ministers and central bankers vowed: "We will take all necessary actions to ensure the resilience of banking systems and financial markets. Concerns over the pace and future of the (economic) recovery underscore the need for a concerted effort at a global level in support of strong, sustainable and balanced (economic) growth."

- In a speech to the Calgary Chamber of Commerce, Canada's Minister of Foreign Affairs, John Baird, urged American politicians to approve the proposed Keystone XL oil pipeline, however: "If the Americans choose to decline the promise that Keystone XL represents, there are many other countries and many other markets for our oil. New emerging economic forces in the Asia-Pacific region offer tremendous opportunities … for all kinds of Canadian companies." Hear! Hear! Mr. Baird.

CLOSING LEVELS FOR FRIDAY, SEPTEMBER 9TH.		WEEKLY CHANGE
Dow Jones Industrial Average	10,992.13	– 248.13 points
Spot Gold Bullion (December)	$1,859.50 (U.S.)	– $17.40 per oz.
S&P / TSX Composite	12,387.54	– 214.87 points
10-year U.S. Treasury Yield	1.92%	– 7 basis points
Canadian Dollar	100.40 cents (U.S.)	– 1.21 cent
U.S. Dollar Index Future (Spot Price)	77.378 cents	+ 2.673 cents
WTI Crude Oil (October)	$87.24 (U.S.)	+ $0.79 per barrel

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