Monday September 12th, 2011

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

# THAT WAS THE WEEK THAT WAS


## Monday, September 12th

Front Page Headline, Times of London – “Bank of America Slashes and Burns. B of A will cut 30,000 jobs over the next few years and slash annual costs by $5 billion (U.S.)

## MONDAY, SEPTEMBER 12TH

- The Italian Treasury issues 4 billion euros of a new benchmark 5-year bond, after the 10-year yield rose to a five-week high of 5.57%. Simultaneously, 11.5 billion euros ($15.6 billion U.S.) of one-year Treasury bills were auctioned at an average yield of 4.15%, up 119 basis points from a month ago. Meanwhile, according to unnamed government sources, the Italian government has held recent talks with China’s Sovereign Wealth Fund in an attempt to persuade Beijing to purchase significant amounts of Italian bonds. Italy, the euro zone’s third-largest economy, is struggling with 1.6 trillion euros ($2.17 trillion U.S.) of sovereign debt. The Italian government is poised to launch a 4 billion euro austerity package aimed at balancing its budget by 2013; but investors do not believe the effort is robust enough – given the enormous debt load, flat GDP and uncompetitive economy – to get the job done. According to data from the Bank of International Settlements (BIS), Italy owed French banks about half of the 626 billion euros it owed to banks in 24 countries at the end of 2010; which makes it a rising threat.

- According to a survey by the National Association for Business Economics, U.S. gross domestic product (GDP) will expand by 1.7% this year – less than its May forecast of 2.8% – and by 2.3% in 2012, previously projected at 3.2%, citing lower consumer and business confidence, limited consumer spending and a struggling housing market.

- Greek Finance Minister Evangelos Venizelos announces the government will impose a new property tax to cover a 2 billion euro ($2.7 billion U.S.) budget shortfall over the next two years: “We had to find something which is fair, something that will be accepted by the community … something that can be implemented quickly and which will produce results immediately. The only measure which has all those characteristics – that can be universally applied, but which is just – is a special property tax.”

- According to the U.K. Telegraph, in recent meetings with Russian President Dmitry Medvedev, British Prime Minister David Cameron related that while some British businesses has expressed an interest in working in Russia, they needed to “have faith that the state, the judiciary and the police will protect their hard work and not put the obstacles of bureaucracy, regulation and corruption in their way … We need to build a relationship in our mutual interest. Both of us want to see progress.” Bravely spoken, Mr. Cameron, but hold not thy breath in the Cossack progress department. Finally, however, a world leader has the testicular fortitude to ‘tell it like it is’ to a Russian leader, face to face. In the wake of the murders of Alexander Litvinenko and Sergei Magnitsky (not forgetting the murders of several Russian journalists critical of the Putin Kremlin); as well as the lengthy, farcical incarceration of Mikhail Khodorkovsky, why would British businessmen be somewhat apprehensive?

- In a National Post article entitled "Germany Seen Preparing for Greek Default," reporter Nigel Kennedy warns: "Fatigue is setting in and the Merkel government debates how to shield German banks. After almost two years of fighting to contain the region's debt crisis and providing the biggest share of three European bailouts, German Chancellor Angela Merkel is laying the groundwork for what markets say is almost a sure thing: a Greek default. Officials in Ms. Merkel's government are debating how to support German banks in the event that Greece fails to meet the budget-cutting terms of its aid package and is unable to obtain a bailout loan payment. According to data from the Bank for International Settlements (BIS), German banks were the biggest holders of Greek government bonds ($22.7 billion U.S.) at the end of 2010. Fredrik Erixon, Director of the European Centre for International Political Economy (ECIPE) – an independent Brussels-based think tank – commented: 'Germany is preparing for the worst, which is, that the crisis in the euro zone is going to be much bigger for everyone."

- According to the National Law Enforcement Memorial Fund, so far this year, 130 U.S. law enforcement officers – working for local and federal police agencies nationwide – were killed while on duty, an increase of 15% over the same period in 2010

- The Organization for Economic Co-operation and Development's (OECD) composite leading economic indicator for the United Kingdom declined to a reading of 100.4 in July from a level of 100.9 in June – the sixth consecutive monthly drop – citing, "perilously close to the 100 points level which indicates only flat (economic) activity"

## TUESDAY, SEPTEMBER 13TH

- According to Department of the Treasury data, the U.S. budget deficit increased by $134.2 billion (U.S.) in August, making the total for the fiscal year to date $1.23 trillion (U.S.)

- The National Federation of Independent Business reports its small business confidence index declined to a reading of 88.1in August from a level of 89.9 in July – the weakest reading since July 2010

- Front Page Headline, Bloomberg News – "U.S. Census Data Shows Rising Poverty. The proportion of Americans living in poverty rose to 15.1% in 2010 from 14.3% in 2009 – the highest level since 1993. In 2010, 42.6 million people fell below the poverty line, calculated as an annual income of $22,314 (U.S.) for a family of four and $11,139 (U.S.) for an individual.

- Front Page Headline, Globe and Mail – "Canadian Household Debt Rises in Second Quarter. Statistics Canada reports national household debt increased to 149% of personal disposable income from 147% in the previous quarter." The National Post reports "DEBT- Canadians might be heading into a recession with record amounts."

- The Office for National Statistics reports the U.K. inflation rate rose marginally to 4.5% in August on a year-over-year basis, citing higher clothing prices and utility costs

## WEDNESDAY, SEPTEMBER 14TH

- The Commerce Department reports U.S. retail sales were unchanged in August, after a revised gain of 0.3% in July, citing high unemployment and limited income growth

- The Labor Department reports the U.S. producer price index (PPI) was unchanged in August, following a 0.2% gain in July, citing lower prices for energy and automobiles

- Moody's Investors Service downgrades Societe Generale's long-term credit rating to Aa3 from Aa2 with a negative outlook and Credit Agricole's rating to Aa2 from Aa1, citing potential losses of 60% on Greek sovereign debt for the two French banks

- In a National Post article, David Rosenberg, Chief Economist at Gluskin Sheff & Associates, opines: "Forget about a second recession – it looks very much like America is in a modern-day depression for the following seven reasons:

1. The U.S. Treasury market is telling us something valuable when (after a period of unprecedented government bailouts, incursions and stimulus programs) the yield on the 5-year note is south of 1% and the 10-year yield is down to 2%.
2. Administered interest rates go to zero and there is no revival in credit-sensitive spending.
3. Banks are sitting on nearly $2 trillion (U.S.) of cash and yet there is no lending going on to the private sector.

4. Since almost half the ranks of the unemployed have been looking for a job fruitlessly, for at least 6 months, the federal government issues 99 weeks of unemployment cheques (on an extended or emergency basis) for over 10 million jobless Americans.

5. In a recession, economic growth would be back to new highs three years after the initial contraction. This time around, everything from personal income – to GDP – to home prices – to corporate earnings, is still down from levels seen at the end of 2007.

6. Usually, depressions are caused by the bursting of an asset bubble and a contraction in credit, whereas plain-vanilla recessions are typically caused by inflation and excessive manufacturing inventories. You tell me which fits the bill today.

7. In a recession, the economy is revived by government stimulus. In depressions, the economy is sustained by government stimulus. There is a very big difference between these two states."

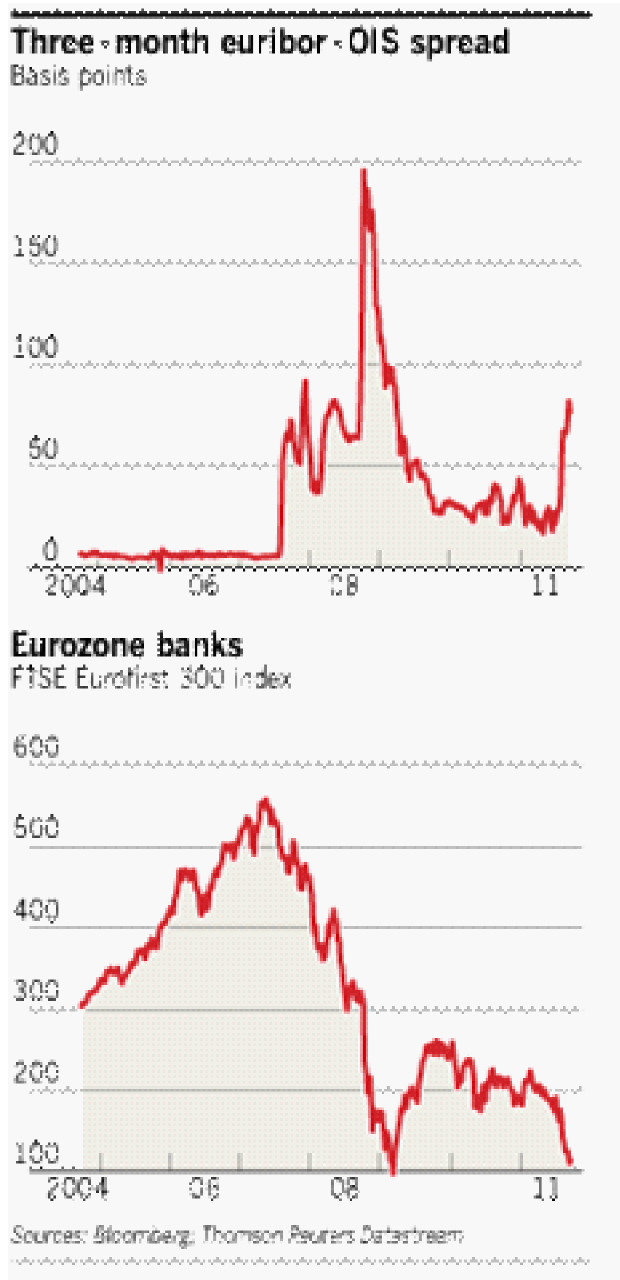
See also, Winter Warning, Aug. 17/11— Hope Springs Eternal in the Human Breast

## THURSDAY, SEPTEMBER 15TH

- The Federal Reserve reports U.S. industrial production – output at factories, mines and utilities – rose by 0.2%, following a gain of 0.9% in July

- The Labor Department reports the U.S. consumer price index (CPI) rose by a seasonally adjusted 0.4% in August, following an increase of 0.5% in July, citing lower prices for automobiles and gasoline. The Labor Department also reports U.S. initial claims for state unemployment benefits rose by 11,000 to 428,000 in the week ended September 9th.

- The Frankfurt-based European Central Bank (ECB) announces it will coordinate with the U.S. Federal Reserve and other central banks to conduct three separate dollar liquidity operations (October 12th., November 9th. and December 7th.) to ensure banks have enough of the currency through the end of the year. The 3-month loans are in addition to the bank's regular 7-day dollar offerings and will be fixed rate tenders with full allotment. One key measure of bank stress – the Eonia-Euribor rate spread – which marks the difference between basically, risk-free overnight market rates and 3-month bank rates, fell following the announcement.




James Longsdon, an analyst with the European banking team at Fitch Ratings, commented: "What concerns us from the ratings point of view is not so much the short-term story, but rather the long-term funding issue … This model where banks can borrow at rates more cheaply than corporates is under threat. Structurally, that creates issues about the long-term profitably of banks." Separately, Nick Matthews, a senior economist at the Royal Bank of Scotland (RBS), remarked: "Policymakers still need to address the core problem – the very large debt overhang in the euro zone – and that part of the equation is yet to be resolved."

## FRIDAY, SEPTEMBER 16TH

- Front Page Headline, Financial Post – Rogue Trader Losses May Cost UBS AG Its 3rd. Quarter Profit. London police arrest UBS trader Kweku Adoboli, charging him with fraud for unauthorized trading losses totaling $2 billion (U.S.).
- The Thomson Reuters / University of Michigan preliminary index of U.S. consumer sentiment rose to a reading of 57.8 in September, following a level of 55.7 in August
- The Federal Reserve reports net worth for U.S. households and non-profit groups declined by $149 billion (U.S.) in the 2nd. quarter – a 1% drop at an annual pace – to $58.5 trillion (U.S.), citing falling share prices and declining home values
- According to the New York Daily News, during his weekly radio broadcast, New York City Mayor Michael Bloomberg warns that unless action is taken to help young people to find work, the United States risks mass rioting: “We have a lot of kids graduating college who can’t find jobs. That’s what happened in Cairo and … in Madrid. We don’t want those kinds of riots here.”
- According to the Financial Times, Jefferson County, Alabama – home to the City of Birmingham – agrees to the framework for a settlement with creditors owed $3.14 billion (U.S.) of debt, averting an imminent filing of the largest municipal bankruptcy in American history. Under the terms of the agreement, creditors will forgive $1.1 billion (U.S.) of debt. JP Morgan – the largest creditor and the arranger of the debt agreement – will absorb the bulk of the losses. The settlement marks the resolution of a 3-year saga.
- Front Page Headline, Washington Post – “Book Portrays Dysfunction at Obama White House. A new book entitled ‘Confidence Men, Wall Street, Washington and the Education of a President’ by veteran journalist Ron Suskind, paints an unflattering portrait of an acrimonious White House beset with infighting.
- Headline- The Globe and Mail. “Economic Turmoil-Central Banks Move to Stave Off Crisis.” “The European Central Bank, the US Federal Reserve and the central banks of England, Switzerland and Japan announced they will provide unlimited amounts of three-month loans in US dollars to euro zone banks, to ensure they have enough cash for the rest of the year.”

| CLOSING LEVELS FOR FRIDAY, SEPTEMBER 16TH. | | WEEKLY CHANGE |
|---|---|---|
| Dow Jones Industrial Average | 11,509.09 | + 516.96 points |
| Spot Gold Bullion (December) | $1,814.70 (U.S.) | – $44.80 per oz. |
| S&P / TSX Composite | 12,263.71 | – 123.83 points |
| 10-Year U.S. Treasury Yield | 2.05% | + 13 basis points |
| Canadian Dollar | 102.15 cents (U.S.) | + 1.75 cent |
| U.S. Dollar Index Future (Spot Price) | 76.544 cents | – 0.834 cent |
| WTI Crude Oil (October) | $87.96 (U.S.) | + $0.72 per barrel |