Monday October 10th, 2011

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, October 10th

Front Page Headline, Globe and Mail – "Dexia Agrees to Belgian Government Bailout."

MONDAY, OCTOBER 10TH
Thanksgiving Day Holiday in Canada/Columbus Day in America

Brussels will pay 4 billion euros to take over Dexia Bank Belgium, which includes a large retail bank in a group which is otherwise focused on lending to local governments. The forced divestment is the first step in the dismembering of the Franco-Belgian bank after it fell victim to a liquidity squeeze prompted by the euro zone debt crisis."

- The German Federal Ministry of Economics and Technology reports the country's adjusted merchandise trade surplus widened by 13.8 billion euros ($18.46 billion U.S.) in August from 10.6 billion euros in July. German Economics Minister Philipp Rosler commented: "I am confident that German exports will continue to have a positive impact on (GDP) growth for the remainder of this year and all of 2012. The data reveals that German exports remain in demand despite markedly more difficult global economic conditions and in a time when companies and consumers worldwide are considering their purchases more carefully."

- Front Page Headline, National Post – "Global Economy Outlook Gloomy. The Paris-based Organization for Economic Cooperation and Development reports its composite leading indicator (CLI) for its 33 member countries declined for the fifth consecutive month in August to a reading of 100.8 following a level of 101.4 in July … The CLIs for all major economies, except Japan, Russia, Germany and the United States are now pointing strongly to a slowdown in economic activity below long-term trend. CLIs are designed to anticipate turning points in economic activity relative to trend. A reversal in an indicator tends to precede turning points in economic activity by about six months. Currently, the consensus is that many major western economies are teetering on the brink of recession, as they struggle to repay inflated levels of debt."

- Front Page Headline, Financial Times – "Beijing Intervenes to Stabilize Banks and Restore Investor Confidence. China's official Xinhua news agency announces that Central Huijin – the domestic arm of China's sovereign wealth fund – will purchase shares in Bank of China, Agricultural Bank of China, Industrial and Commercial Bank of China and China Construction Bank adding: "to support the healthy operations and development of key state-owned financial institutions and stabilize the share prices of state-owned commercial banks."

- According to the Globe and Mail, U.S. Ambassador to Canada David Jacobson recently stated: "Particularly in my country, people understand that if we're going to move the needle on exports, trade and jobs … we're going to have a lot more bang for our buck by focusing on Canada" – such as the potential Beyond the Border pact. Lately, however, that deal risks being overwhelmed by powerful, isolationist initiatives in the United States, such as: a proposed U.S. tariff on Canadian freight; stiffening opposition to a crucial pipeline for Alberta's oil and a tax crackdown on Americans living in Canada.

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- Front Page Headline, Financial Times-"Time Is Short For Eurozone." "David Cameron (UK Prime Minister) has urged European leaders to take a 'big bazooka' approach to resolving the euro zone crisis, warning they have just a matter of weeks to avert economic disaster."

TUESDAY, OCTOBER 11TH

- Front Page Headline, Globe and Mail – "Europe Warned of Systemic Crisis. In a speech to a German Parliament committee, European Central Bank (ECB) Chairman Jean Claude Trichet issues a dramatic warning as Chairman of the European Systemic Risk Board: 'The (euro zone sovereign debt) crisis is systemic and must be tackled decisively. The high interconnectedness in the European Union (EU) financial system has led to a rapidly rising risk of significant (sovereign debt) contagion. It threatens financial stability in the EU as a whole and adversely impacts the real economy in Europe and beyond.' Mr. Trichet will be retiring at the end of October.

- Canada Mortgage and Housing Corp. (CMHC) reports the nation's housing starts increased to a seasonally adjusted annual pace of 205,900 units in September, citing gains in the Maritimes, Quebec and British Columbia. Multiple-unit urban starts rose by 14.2% to 118,000 units, while urban single starts fell by 1.5% to 67,900 units. CMHC's deputy chief economist Mathieu Laberge commented: "Multiple housing starts are expected to retreat towards levels consistent with demographic fundamentals in the near term."

- Front Page Headline, Wall Street Journal – "Slovacs Reject Expansion of the European Financial Stability Facility (EFSF). The Slovakian Parliament not only, fails to approve a critical part of a euro zone crisis management plan, but also, succumbs to a vote of non-confidence, delaying European leaders' campaign to bolster confidence in the euro currency. A second vote is expected later this week. Euro zone leaders are hoping to reach agreement on a package of measures at their October 23rd. summit, which would cover the recapitalization of European banks, an initiative to resolve Greece's sovereign debt crisis and new proposals to maximize the EFSF's impact.

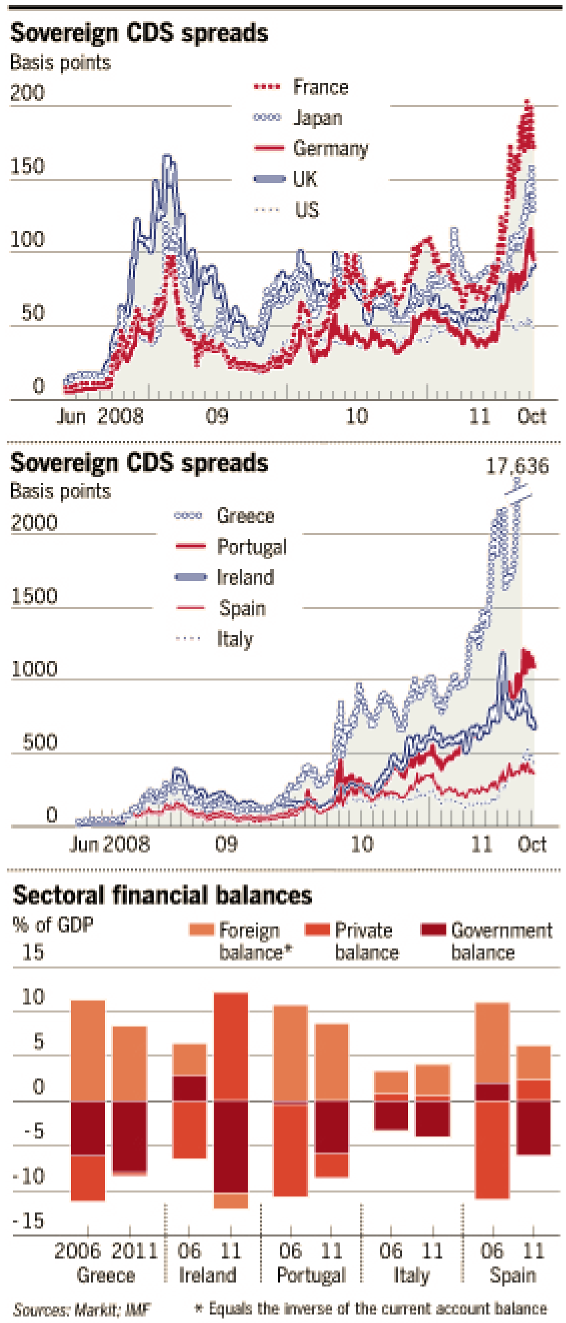
- Front Page Headline, National Post – "Sinopec Buys Calgary-based Daylight Energy. Sinopec (China Petroleum and Chemical Corp.) agrees to pay $2.2 billion (CAD) for conventional oil and gas producer Daylight Energy Ltd. Since 2009, most of China's energy investment in Canada has focused on oil sands projects, but the recent emergence of liquefied natural gas from North America as a potential new fuel source for the Chinese economy, has prompted interest in conventional oil and gas producers."

- In a vote of 63 to 35, the U.S. Senate passes legislation which will apply pressure on countries that America determines are deliberately misaligning their currencies for international trade advantage. The law would require estimates of such currency undervaluation to be included in "countervailing duty" tariffs that Washington could impose on imports which it deemed to be unfairly state-subsidized. Republican leaders in the House of Representatives have termed the bill "dangerous" and are yet to schedule a vote. Max Baucus, Chairman of the Senate Finance Committee, warned: "China must stop flouting world trade rules. Ending its currency manipulation is one important step in that process." China's renminbi has gained 30% against the U.S. dollar since the peg was lifted in 2005, but American critics believe that it still remains undervalued by as much as 40%.

- In a Financial Times op-ed, reporter Martin Wolf opines: "Nobody now sees the euro zone crisis as a little local difficulty. It has become the epicenter of an aftershock of the global financial crisis that could prove even more destructive than the initial earthquake. Potentially, it is a triple shock: a financial crisis; a sovereign debt crisis – including Italy, the world's largest sovereign debtor – and a crisis of the Euro project with unknowable political consequences. It is no wonder investors are frightened. They ought to be.

- Front Page Headline, Financial Times-"EU Sets Deadline To Tackle Debt Crisis" "Leaders to meet in two weeks to agree deal. Decision on Greek bail-out to be included."

  My standing view is that Germany will do whatever it can to keep the euro zone functioning, provided it does not threaten its own solvency … The euro zone must deal with the immediate crisis in ways that also help resolve the longer term challenges. The broad consensus of the world's policymakers and commentators is that the euro zone must now do the following: divide countries in difficulties into the insolvent and the illiquid; restructure the debts of the former and provide unlimited, but temporary, support for the latter; and recapitalize banks after stress tests that allow for losses on sovereign debt, either from national treasuries, or from the European Financial Stability Facility (EFSF), in accordance with the flexibility given by the decisions taken in July 2011. No doubt, a way must be found to deal with the immediate crisis that does not allow another panic. However, that would not be a solution if it merely led to indefinite financing of fundamentally uncompetitive economies. At the same time, one-sided and unduly hasty adjustment would exacerbate the downturns in the euro zone and world economies. What is needed is financing and adjustment. Unless and until that difficult combination is achieved, we are delivering first aid, not a cure."



WEDNESDAY, OCTOBER 12TH

- Front Page Headline, Bloomberg News – "U.S. Senate Blocks Obama's $477 Billion Job Creation Plan. By a vote of 50 to 49 – short of the 60 votes needed for passage – the U.S. Senate shelves the measure in its current form. The broad legislation includes cuts in payroll taxes for workers and employers and provides new funding for roads, bridges and other infrastructure. Senate Minority Leader Mitch McConnell (R-Ky) termed the measure "a lousy idea. If voting against another (administration) stimulus (package) is the only way we can get Democrats in Washington to finally abandon this failed approach to job creation, then so be it."

- The Office for National Statistics reports the U.K. unemployment rate rose to 8.1% from 7.9% in the three months ended August 31st. – the highest level in 15 years – as the number of unemployed reached 2.57 million people.

- Front Page Headline, Bloomberg News – "Wall Street Sees 'No Exit' From Financial Woes. According to Bloomberg News interviews with more than two dozen Wall Street executives, the current era of decline in business and industry disappointment may not end for years. Charles Stevenson, President of the hedge fund Navigator Group Inc. commented: "I don't think it's a time to make money. This is a time to rig for survival." CIT Group Inc. Chief Executive Officer John Thain lamented: "The future is not going to be like the past we knew. There's no exit from this (economic) morass."

- According to a report from TD Economics, compiled by economists Derek Burleton and Diana Petramala, Canadian seniors are nearing or entering retirement more indebted than ever before. "In particular, the 65-plus age group is accumulating debt at triple the historical average pace … On a positive note, an above-average penchant to accumulate debt could lessen the risk of a severe negative (financial) adjustment down the road."

- In a Globe and Mail op-ed entitled 'Canada Quietly Builds Productivity Revolution', Gluskin Sheff chief economist David Rosenberg cites: "While Canada is not immune to (periods of) global economic weakness, the nation is not headed down the same path as many other countries. Sure, household debt levels in Canada are higher than many people – including the International Monetary Fund – would like. However, recent tightening measures by Canada Mortgage and Housing Corp. are taking much of the fervor out of the red-hot housing market, which should help restrain the runaway growth in mortgage debt … When you look around the world, Canada is a bastion of stability. What makes the current economic cycle in Canada so unique and exciting is that it is being fuelled by the supply side and driven by impressive rates of growth in capital spending, which in turn will boost future productivity. In real terms, capital expenditures by businesses have increased for the last six consecutive quarters and have expanded by 20% on a year-over-year basis, 10 times the pace of the rest of the economy.

  This is the silver lining in the Canadian dollar's strengthening trend during recent years. While the firm loonie has hampered the competitiveness of Canadian exports, it has also helped businesses purchase technology from the U.S. at a lower cost … Purchases of machinery and equipment from foreign producers (mostly from high-tech firms in the United States) are coming across the border to the tune of $100 billion (CAD) annually, or about 30% of the total inbound traffic of goods. The prices that Canadian businesses are paying for this technology are 7% lower than at this time last year. The new equipment being purchased will help boost Canadian productivity. Canadian multi-factor productivity – capital and labour co-mingled – turned positive last year for the first time in a decade and posted its best performance in nearly two decades."

- Front Page Headline, Wall Street Journal – "Spanish Banks Hit by Rating Cuts. Both Standard & Poors (S&P) and Fitch Ratings downgrade Spain's leading banks, citing slowing economic growth prospects, a depressed property market and turbulence in capital markets."

- After months of contentious debate among City and State officials, the City of Harrisburg, Pennsylvania files for municipal bankruptcy protection, just days before the State Senate was scheduled to vote on taking control of the capital city's finances. Harrisburg is carrying a $300 million (U.S.) debt load over a failed trash-incinerator project and is expected to exhaust its cash on hand during the current quarter. Several Pennsylvania State and local officials – including Mayor Linda Thompson – question whether the bankruptcy filing is legally authorized.

- Canada's federal government posts a deficit of $33.4 billion (CAD) for the 2010-2011 fiscal year ended March 31st. – a 40% decline from the previous fiscal year – and $2.8 billion (CAD) less than the $32.6 billion (CAD) shortfall forecast in the most recent federal budget. Canadian Finance Minister Jim Flaherty cited: "This report shows we are making solid progress toward our goal of returning to budget balance."

- Front Page Headline, U.K. Daily Telegraph – "Mario Draghi Fears Italian Debt Spiral. Italy's Central Bank Governor, Mario Draghi, who assumes the chairmanship of the European Central Bank (ECB) in November, warns: "Italy risks a debt spiral without drastic steps to cut spending to restore confidence in public finances. Austerity measures must be enacted immediately because Italy's current 54billion euro austerity package is insufficient. All our citizens must be aware that it would be a tragic illusion to expect that help will come from the outside. It's not going to happen."

THURSDAY, OCTOBER 13TH

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 1,000 to 404,000 in the week ended October 8th. while continuing claims declined by 55,000 to 3.67 million in the week ended October 1st. Those people who have exhausted their traditional unemployment benefits but are now receiving emergency or extended benefits under federal programs increased by about 2,300 to 3.55 million in the week ended September 24th.

- The Commerce Department reports the U.S. trade deficit increased slightly to $45.6 billion (U.S.) in August from $44.8 billion (U.S.) in July

- The Beijing-based customs bureau reports China's exports increased by 17.1% in September – the lowest in 7 months – following an increase of 24.5% in August, warning of "severe challenges" as the global economic outlook worsens

- Front Page Headline, Globe and Mail – "Slovakia Approves Expanded EFSF. In exchange for early elections, the opposition Smer-Social Democracy agreed to assist the coalition government by approving the expanded European Facility Stability Fund."

- Statistics Canada reports the nation's trade deficit widened to $622 million (CAD) in August following a deficit of $539 million (CAD) in July, citing exports to the United States declined by 2.3% to $26.6 billion (CAD)

- In a new study, the Institute for Research on Public Policy reports: "The needs and interests of Canadian investors would not be better served by a national securities commission. Moving to a national securities regulator would undermine many of the benefits of the status quo, without bringing any tangible benefits to the table." Pierre Lortie, former President of the Montreal Stock Exchange commented: "My own assessment of the performance of Canada's decentralized securities regulations structure concluded that it compares favourably with the systems in other countries. This is in large part due to the high degree of coordination among provincial securities commissions with reporting systems that are national in scope. Canada's existing system is tailored to regional economic differences, which is a key advantage. Even if the Supreme Court of Canada finds that a proposed national securities regulator is constitutional, that would not necessarily justify it as being sound public policy." If in doubt, one only has to review the regulatory performance of the U.S. Securities and Exchange Commission (SEC) over the last decade. Does Bernie Madoff ring a bell?

- Front Page Headline, Globe and Mail – "Fitch Downgrades Lloyd's, RBS Credit Ratings. Fitch Ratings downgrades the credit ratings of bailed-out British lenders Lloyd's Bank and Royal Bank of Scotland, citing: "Support dynamics are changing in the U.K. The banking system is, not only large relative to the size of the British economy, but also, there is a more advanced political will to reduce the implicit support for the country's banks."

- Standard & Poors downgrades Spain's sovereign debt credit rating from 'AA' to 'AA' (Low) with a negative outlook, citing slowing economic growth and a weakening financial system: "Despite resilience in Spain's economy this year, there are heightened risks to Spain's (GDP) growth prospects due to high unemployment, tighter financial conditions, a high level of debt and a broader euro zone (economic) slowdown. Moreover, Spain's banks will continue to accumulate problematic assets into 2012 and access to market funding remains scarce and expensive."

- Front Page Headline, Financial Times-"Fed Looked At Another Round Of Easing." "QE3 may be on cards if economy weakens. Minutes signal appetite to support growth." " 'A large number of participants saw large-scale asset purchases as potentially a more potent tool that should be retained as an option in the event that further policy action to support a stronger economic recovery was warranted,' say minutes of a meeting released on Wednesday."

FRIDAY, OCTOBER 14TH

- The Department of the Treasury reports the American federal government registered a deficit of $1.3 trillion (U.S.) for the fiscal year ended September 30, 2011 – the third consecutive annual budget deficit in excess of $1 trillion (U.S.) – and represented 8.7% of gross domestic product (GDP). Jacob Lew, Director of the White House Office of Management and Budget (OMB) commented: “This report confirms that we cannot waste any time in jump-starting economic growth and job creation to lay the foundation for a stronger economy and lower future deficits.” With the American debt ceiling currently set at $15.194 trillion (U.S.), it doesn’t require a vivid imagination to envisage a U.S. statutory debt limit in excess of $16 trillion (U.S.) by the time the presidential elections occur in about 55 weeks hence.

- U.S. regulators close four banks in Georgia, North Carolina, New Jersey and Illinois, as this year’s national total of collapsed banks reaches 80. The Federal Deposit Insurance Corp. (FDIC) reported the Georgia Department of Banking and Finance closed Piedmont Community Bank in Gray, Georgia – the State’s 20th. bank failure of the year. State Bank and Trust Co. of Macon, Georgia will assume all of Piedmont’s deposits.

- Statistics Canada reports the nation’s manufacturing sector posted a 1.4% increase in sales to $47.6 billion (CAD) in August.

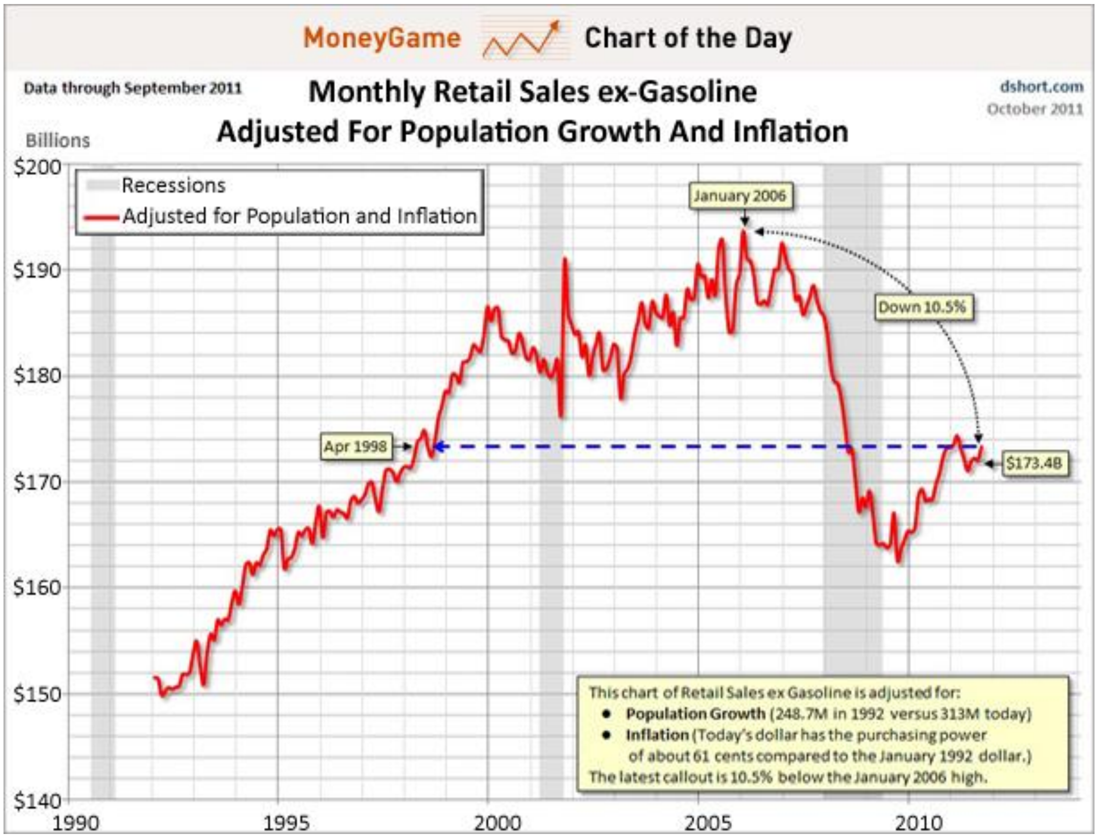
- Front Page Headline, Business Insider – “Occupy Wall Street Plans for a National Convention. The New York protesters are proposing to elect delegates and organize a convention on July 4, 2012 … ‘The delegates must demand that our leaders take action … We must take back our democracy from the corporations and those who buy power and influence with money – including unionists and lobbyists.” If this group is planning to overthrow the long-standing, well-entrenched, multi-billion dollar Washington lobbyist system, this is going to be one protracted and mighty campaign. There will be social unrest, to say the least.

- Headline Financial Times-“Judge Gives Rajaratnam 11 Years And Attacks ‘Virus’ In Business.” “Raj Rajaratnam, the billionaire US hedge fund manager, was on Thursday sentenced to 11 years in prison, the longest term for insider trading in recent times.” “The prominent Wall Street financier was also ordered to pay a $10m fine, plus $53.8m in restitution, but escaped a longer prison sentence because of ill health.”

- Further to Mr. Rajaratnum’s sentencing we would like to quote from Conrad Black’s piece featured in The National Post on Saturday October 15, 2011 entitled “Why They’re Occupying Wall Street.” “The Wall Street protesters denounce government bail-outs, the political and economic short-shifting of students and young workers, the high cost of post-secondary education, various forms of discrimination, U. S. foreign policy, union-busting, outsourcing, the oil industry, media misinformation and (more generally) capitalism and globalization.”
  “Of course this a pretty-hackneyed scatter-gun indictment by people who haven’t really thought it through, but their anger and frustration are largely justified nonetheless: In the past decade, many prominent financial houses joined in the process of issuing consolidated debt obligations (CDOs), consisting of unfathomable patchworks of mortgages on packages of residential real estate, unsupported by any real base of invested equity in the underlying assets by their ostensible owners, and covered by diaphanous fig-leaves of default insurance. These instruments were made deceptively presentable by certificates from the main rating agencies that they were investment-grade, as if issued by serious entities and secured by unquestionable assets.”
  “The financial system was revealed by the light of a thunderbolt in 2008 in its ghastly infirmity. And a great many people probably are guilty of fraud or of negligence on a massive scale, yet have escaped prosecution, let alone conviction and punishment. The spectacle of Goldman Sachs, which was virtually the junior partner of the U. S. Treasury and the British Exchequer and a chief training school for leading financial officials of the governments of both countries for decades, peddling herniating masses of CDOs out of their investment window while short-selling them in their house accounts, was disgraceful. And the wrist-slap fine they received for it while their chairman explained that the firm ‘was doing God’s work’ made it more so. (Not since Richard Wagner’s bumbling Wotan has such an implausible deity strutted the stage before a paying audience.) If Raj Rajaratnum’s punishment was 11 years, the punishment for these disgusting deities should be considerably in excess of that.

- The Commerce Department reports U.S. retail sales rose by 1.1% in September citing gains in automobiles, clothing and furniture; however, when adjusted for population growth and inflation, as the Business Insider chart below indicates, retail sales are still more than 10% below 2006 levels and about even with April 1998 levels.

- Front Page Headline-The Globe and Mail, Report on Business-“A Slowing China Hits Global Trade.” “As Asian power’s exports fall, demand drops for Canadian raw materials and commodities.”



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CLOSING LEVELS FOR FRIDAY, OCTOBER 14TH.		WEEKLY CHANGE
Dow Jones Industrial Average	11,644.49	+ 541.37 points
Spot Gold Bullion (December)	$1683.00 (U.S.)	+ $47.20 per oz.
S&P / TSX Composite	12,081.73	+ 493.37 points
10-Year U.S. Treasury Yield	2.25%	+ 17 basis points
Canadian Dollar	98.96 cents (U.S.)	+ 2.65 cents
U.S. Dollar Index Future (Spot Price)	76.622 cents	– 2.731 cents
WTI Crude Oil (November)	$86.80 (U.S.)	+ $3.82 per barrel

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”Those who cannot remember the past are condemned to repeat it.” Santayana