

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS



Monday, October 17th

The Federal Reserve reports U.S. industrial production rose by 0.2% in September, citing higher demand for automobiles and computers, following a flat month in August

MONDAY, OCTOBER 17TH

- Front Page Headline, Market Watch News – “Kinder Morgan Buying El Paso for \$38 Billion (U.S.). Kinder Morgan Inc. announces it will create the largest natural gas pipeline system in the U.S. by purchasing El Paso Corp. in a \$38 billion (U.S.) cash, stock and warrant takeover which includes the assumption of \$17 billion (U.S.) of debt.” In a press release, Chief Executive Officer Richard Kinder commented: “The El Paso assets are primarily regulated interstate natural gas pipelines which produce a substantial, stable cash flow and have access to key supply regions and major consumer markets. The natural gas pipeline systems of the two companies are very complimentary, since they primarily serve different supply sources and markets in the United States.”
- At a Berlin press briefing, Steffan Seibert, German Chancellor Merkel’s chief spokesman stated: “The Chancellor has made it clear that dreams that are taking hold now that with this package – ‘everything will be solved and everything will be over next Monday’ – won’t be able to be fulfilled. The search for an end to the (euro zone sovereign debt) crisis surely extends well into next year.”
- Front Page Headline. Bloomberg News – “Wall Street Protesters May Demand Trials.” Hundreds of ‘Occupy Wall Street’ protesters arrested for demonstrating on the Brooklyn Bridge October 1st. may demand trials if charges against them aren’t dropped and some are seeking the arrest of police officers.”
- The Federal Reserve Bank of New York’s Empire State Index for regional manufacturing rose to a reading of minus 8.5 in October following a level of minus 8.8 in September
- Front Page Headline, Globe and Mail – “Sprott Invests in a Different Kind of Bank.” The investment management firm Sprott Inc. is investing in the Ontario-based currency trading company Continental Currency Exchange Corp. Application is being made to federal regulators for permission to restructure the 17-branch operation as the Continental Bank of Canada. A decision is expected early in 2012.
- The Canadian Real Estate Association (CREA) reports sales of existing homes across the nation rose by 2.7% in September compared with August and by 11% compared with September 2010. The strong September activity means the number of homes sold on CREA’s multiple listing service has reached 361,747 for the first nine months of the year and the national average for a resale home rose by 6.5% from September 2010.
- Front Page Headline, Wall Street Journal – “Portugal Unveils New Austerity Measures. Portugal’s government unveils harsh new austerity measures to control its budget deficit over the next two years. In an interview, Finance Minister Vitor Gaspar stated: “The new budget’s tax increases and spending cuts would reduce the government deficit by 6% of gross domestic product (GDP) from what it would have been under current policies.”

- Front Page Headline, National Post – “Time Running Out, Flaherty Warns Europe. In a strongly worded speech delivered in Dublin, Ireland, Canadian Finance Minister Jim Flaherty called upon Europe to finally make the tough decisions necessary to gain control of the sovereign debt crisis and restore confidence to the markets. ‘What started as a sovereign debt crisis in smaller countries in Europe in the spring of 2010, has now spread to larger European countries, causing extreme stress in the European financial sector and threatening global (economic) growth. This is the world’s most immediate and pressing problem. It threatens Europe and the strong, sustainable and balanced (economic) growth that G20 countries have made their priority. It is threatening to bring the world to the verge of another recession.’
- Front Page Headline, Financial Times – “Improvement in U.S. Mortgage Delinquencies Ends. New fears concerning the state of U.S. household debt surface as Citigroup and Wells Fargo join JP Morgan Chase in reporting new signs that mortgagors are falling behind in their payments. The banks’ third quarter results revealed weakness in consumer loans, with mortgage delinquency numbers indicating record low mortgage rates and government loan modification programs are failing to assist large numbers of homeowners. Wells Fargo, for example, reported delinquencies in excess of 90 days in its main consumer loan portfolio – including mortgages and credit cards – rose by 4% to \$1.5 billion (U.S.), the first increase since 2009. The bank is increasing its provision for consumer loan losses for the first time in two years.”
- Front Page Headline, U.K. Telegraph – “Berlin Experts Fear Euro Break-up From Bailout Escalation. Berlin’s DIW Institute, one of German Chancellor Merkel’s five official advisers, cites attempts to boost the 440 billion euro European Financial Stability Fund (EFSF) – possibly to 2 trillion euros – with guarantees to shore up southern Europe would be “poisonous” for France’s creditworthiness. Dr. Ansgar Belke, the institute’s research director, stated: ‘The leverage proposal emerging as part of the European Union’s Grand Plan to restore confidence is self-defeating. It counteracts efforts made so far to stabilize the euro zone debt crisis, which are premised on the AAA (credit) rating of a sufficiently large number of strong economies. In extremis, it would probably cause the break-up of the euro zone.’

TUESDAY, OCTOBER 18TH

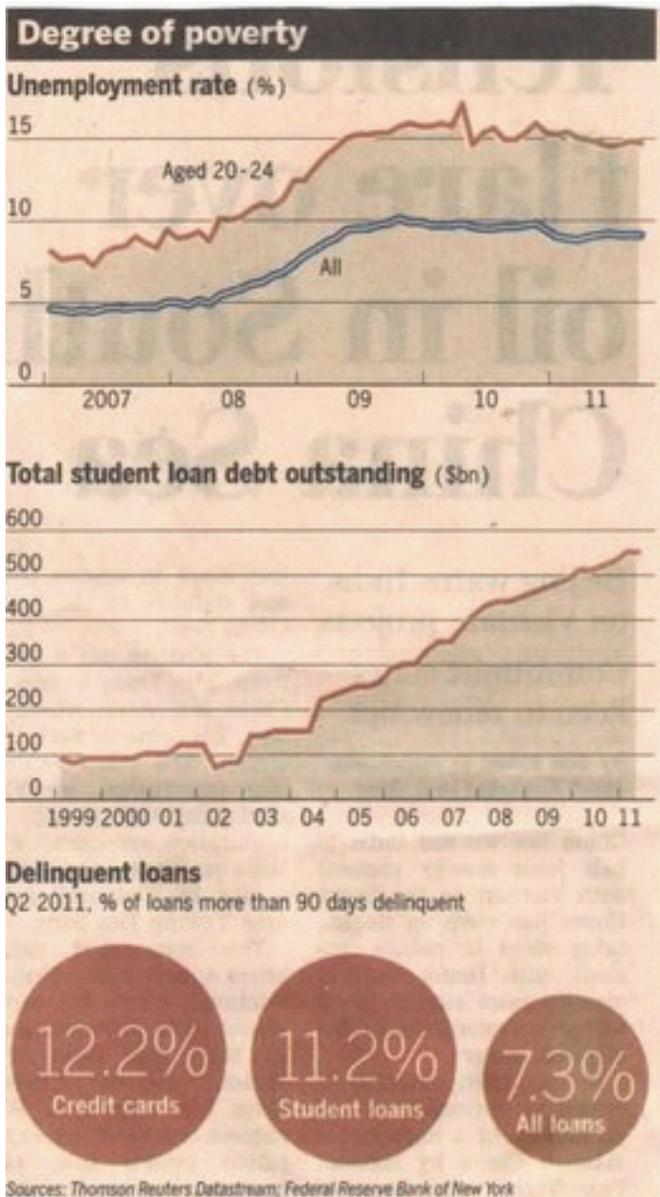
- The Bureau of Labor Statistics reports the U.S. producer price index rose by a seasonally adjusted 0.8% in September – the most in 5 months – following no change in August. The core rate (ex-food and energy) rose by 0.2% during the month and at an annual rate of 2.5% to the end of September.
- Front Page Headline, Bloomberg News – “China’s Economy Grows Slowest Since 2009. China’s statistics bureau reports the country’s gross domestic product (GDP) expanded at an annual pace of 9.1% in the 3rd. quarter, the slowest pace in two years. Growth slowed as the Bank of China tightened its monetary policies to curb inflation.”
- Goldman Sachs Group Inc. reports a 3rd. quarter loss of \$393 million (U.S.) – the firm’s 2nd. quarterly loss in 12 years – citing losses in its investment portfolio and declining revenue from trading, asset management and securities underwriting operations. PITY.
- The National Association of Homebuilders /Wells Fargo sentiment index rose to a reading of 18 in October from a level of 14 in September, citing continuing low mortgage rates and price declines due to foreclosures
- The Mannheim-based ZEW Center for European Economic Research reports its index of German investor and analyst economic expectations – envisioning a six-month lead time – declined to a reading of minus 48.3 in October, following a level of minus 43.3 in September, the lowest reading since November 2008
- The Office for National Statistics reports U.K. consumer prices rose by 0.6% in October, taking the annual inflation rate to 5.2%, the highest since September 2008.
- Front Page Headline, Globe and Mail – “France Pledges to Defend ‘AAA’ Credit Rating. Following a warning from Moody’s Investors Service of a possible lowering of France’s credit rating outlook to negative from stable, Finance Minister Francois Baroin, in a televised interview stated: ‘The government’s projection of a 1.75% increase in gross domestic product (GDP) for 2012 was probably too high. While it is indisputable that the government may have to (downwardly) adjust the projected GDP growth figure, we will conserve our ‘AAA’ (sovereign debt) credit rating. It is a necessary condition to protect our social model. We will do everything to avoid a downgrade.’

- Front Page Headline, U.K. Daily Telegraph – “Euro Zone Debt Crisis Could Cause Collapse of Global Banking System – Citigroup. Testifying before a session of the House of Lords EU Economic and Financial Affairs Sub-Committee on the euro zone debt crisis, Willem Buiter, Citigroup’s chief economist stated: ‘The recapitalization of banks and other systemically important institutions should be a priority in the euro region. If they don’t, we are setting ourselves up for a financial crisis following the sovereign (debt) crisis ... It’s going to take months, probably well into 2012, before we have clarity about how Spain and Italy will be ring-fenced, guaranteed funding, how the banks will be recapitalized and how many of them will be majority state-owned.’”

- Front Page Headline, Financial Times – “U.S. Student Debt Impact Likened to Subprime Crisis. U.S. university students and graduates are facing a double whammy of ballooning debt loads and high unemployment, raising worries that a potential delinquency crisis could bleed into the wider economy. Student debt has increased nearly sevenfold from \$80 billion (U.S.) in 1999 to \$550 billion (U.S.) at the end of June 2011, according to the Federal Reserve Bank of New York. Other estimates from the Department of Education put outstanding student loans as high as \$805 billion (U.S.). but the unemployment rate for 20 to 24 year-olds is nearly 15% – higher than the overall 9.1% rate – compromising the ability of graduates to pay off their growing debts. Student loan delinquencies have risen from 6.5% in 2003 to 11.2% in June 2011, nearly as high as the 12.2% rate on credit cards.”

WEDNESDAY, OCTOBER 19TH

- The Labor Department reports the U.S. consumer price index (CPI) rose by 0.3% in September – the slowest pace in three months – while the core rate (ex-food and energy) rose by 0.1% citing: the biggest decline in clothing prices since 1998, lower prices for used cars and trucks and the smallest increase in rents in four months.
- The Commerce Department reports U.S. housing starts rose by 15% to an annual pace of 658,000 units in September. However, building permits declined to a 5-month low, indicating additional foreclosures that are adding to the supply of unsold homes and depressing property values, continue to provide headwinds for developers.
- Front Page Headline, Bloomberg News – “Global Recession Likely if Euro Crisis Persists – Nobel Winner Mortensen. At a press briefing in Taipei, Taiwan, Nobel Prize-winning economist Dale Mortensen stated: “If the Europeans can’t solve their (sovereign) debt problem within a year, we are likely to have another worldwide recession ... For the long term; Euro zone members must realize that they need to change their fiscal policies. The individual country in the euro zone must relinquish some of its sovereign authority to maintain a stable euro (currency).”



- Front Page Headline, Financial Times-“France Raises Stakes in Euro Crisis. Sarkozy warns failure risks European unity. Tone ahead of summit contrasts with Merkel”....
“Raising the sense of urgency, the French president added: ‘Allowing the destruction of the euro is to take the risk of the destruction of Europe. Those who destroy Europe and the euro will bear the responsibility for the resurgence of conflict and division on our continent.’”
- Front Page Headline, Wall Street Journal – “Citigroup to Pay Millions to Close Fraud Complaint. Citigroup agrees to pay \$285 million (U.S.) to settle a civil complaint by the Securities and Exchange Commission (SEC) that it had defrauded investors by issuing \$1 billion (U.S.) of risky mortgage-related securities without disclosing its marketing role, or that the bank had lodged short positions against the issue for its own investment portfolio.”
- Front Page Headline, Globe and Mail – “Greece Crippled by Anti-Austerity Strike. Mass protests in central Athens turn violent ahead of Thursday’s crucial parliamentary vote which to approve another round of wage and pension cuts that Greek workers say threaten their livelihoods. By mid-afternoon, dozens of men clad in black and wearing motorcycle helmets or tear gas masks, taunted police with stone projectiles. Police responded with tear gas bombs, which drew a more aggressive response from the protesters in the form of petrol bombs.”
- Toronto-based Agnico-Eagle Mines Ltd. announces operations at its flooded Goldex mine in Val D’Or, Quebec, will be suspended and the company will take a \$170 million (U.S.) after-tax write down of the property’s value. The company decided to close the mine after a second consulting firm of rock mechanics recommended the company cease mining operations until the situation at the mine site could be investigated further. In a conference call with analysts, Agnico-Eagle Chief Executive Officer Sean Boyd stated: “We will have more information ... next week when we provide more detail on our 3rd. quarter results. From the perspective of our overall business, there’s really no change in how we’re going to approach our business.” By mid-morning, Agnico-Eagle (AEM) shares had traded down by 18.42% to \$47.30 (CAD) on the Toronto Stock Exchange.
- Front Page Headline, Washington Post – “Social Security Recipients to Obtain First Increase in Benefits Since 2009. The Social Security Administration announces a 3.6% increase in benefits to about 55 million Americans commencing in January 2012. The increase will average \$39 (U.S.) a month or about \$467 (U.S.) per year. In December, more than 8 million people who receive Supplemental Security Income – the disability program for the poor – will receive increases averaging \$18 (U.S.) per month, or about \$216 per annum. In total, 20% of Americans stand to receive a raise from the cost-of- living adjustment (COLA). Max Richtman, Chief Executive Officer of the National Committee to Preserve Social Security and Medicare commented: ‘This may be cold comfort, however, once recipients see just how high next year’s Medicare’s premiums will go.’

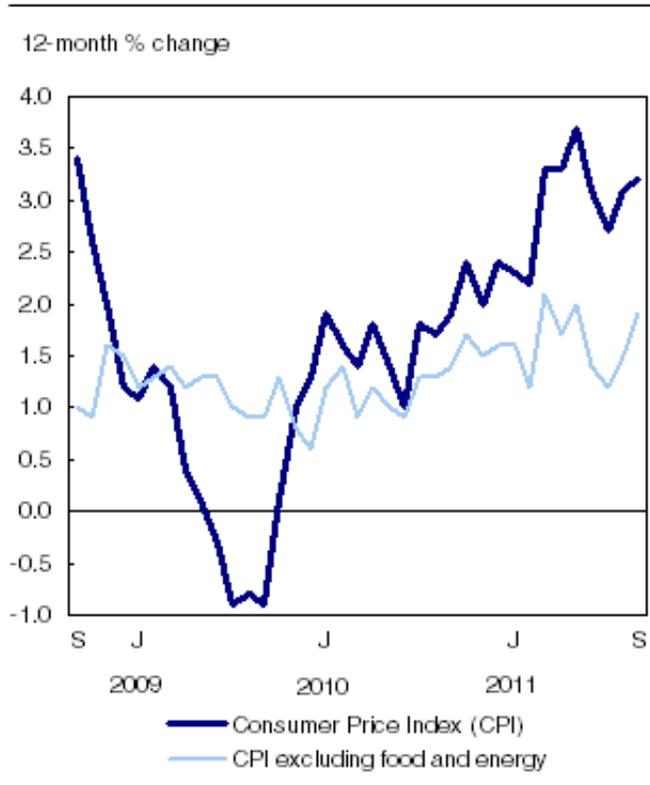


- Moody's Investors Service downgrades Spain's sovereign debt credit rating to 'A1' from 'Aa2' with a negative outlook citing:
 1. Spain continues to be vulnerable to market stress and event risk. Since placing the ratings under review in late July 2011, no credible solution to the current sovereign debt crisis has emerged and it will in any event take time for confidence in the area's political cohesion and (economic) growth prospects to be fully restored. In the meantime, Spain's large sovereign borrowing needs, as well as the high external indebtedness of the Spanish banking and corporate sectors, render it vulnerable to further funding stress.
 2. The already moderate (economic) growth prospects for Spain have been scaled back further in view of (a) the worsening global and European (economic) growth outlook and (b) the difficult funding situation for the banking sector and its impact on the wider economy. Specifically, Moody's now expects Spain's real GDP growth in 2012 to be 1% at best, compared with earlier expectations of 1.8%, with risks mainly to the downside. Over the following years, Moody's continues to expect a very moderate pace of (economic) growth of around 1.5% on average per annum.
 3. Lower economic growth, in turn, will make the achievement of the ambitious fiscal targets even more challenging for Spain. Moody's expects the budget deficits for the general government sector to be above target both this year and next. In particular, Moody's continues to have serious concerns regarding the funding situation of the regional governments and their ability to reduce their budget deficits according to targets.
- The National Association of Realtors reports U.S. existing home sales declined by 3% to a seasonally adjusted annual pace of 4.91 million units in September, following an upwardly revised level of 5.06 million units in August, previously reported as 5.03 million; citing newly imposed tougher mortgage loan limits and continuing foreclosures
- Front Page Headline, The Globe and Mail—"Greece Erupts as Leaders of Euro Zone Fumble for Solutions. Emergency Talks in Frankfurt Seek German-French Accord Ahead of Weekend Euro Summit." "Thousands protested in Athens over a bill that would slash civil service pay and jobs."
- Front Page Headline, Bloomberg News – "Misrata Military Council Reports Col. Qaddafi Died After Capture. Libya's Muammar Qaddafi, whose dictatorship lasted 42 years, died after being captured by forces led by the Misrata Military Council. In a press release, the Council reported its troops led the assault on Qaddafi's home town of Sirte and acted independently from the interim government known as the National Transitional Council."
- The New York-based Conference Board's index of leading economic indicators rose by 0.2% in September, following a 0.3% gain in August
- The Labor Department reports U.S. jobless claims declined by 6,000 to 403,000 in the week ended October 15th. while continuing claims increased by 25,000 to 3.72 million in the week ended October 8th. Those people who have exhausted their traditional benefits and are now receiving emergency or extended benefits under federal programs declined by about 68,000 to 3.48 million in the week ended October 1st.

THURSDAY, OCTOBER 20TH



- The Federal Reserve Bank of Philadelphia's general economic index rose to a reading of 8.7 in October from a level of minus 17.5 in September. Robert Dye, chief economist at Comerica Inc. in Dallas, Texas commented: "This is definitely a multi-speed economy and if you lump it all together, it's limping along."
 - In its latest global wealth report, Credit Suisse cites: "While wealth per adult in the United States remains 8% below the 2007 level, Canada's wealth in domestic currency (terms) is now 3% above the 2007 figure ... ranking the country eighth in the world."
 - Front Page Headline, Globe and Mail – "Scotiabank Buys Colombian Bank. The Bank of Nova Scotia – Canada's third largest bank – announces it will acquire a 51% interest in Colombia's Banco Colpatria for \$1 billion (U.S.) via \$500 million (U.S.) in cash and 10 million Scotiabank shares. Privately held Banco Colpatria is part of Colombia's fifth largest financial group with 175 branches and assets of \$6.2 billion (U.S.) and deposits of \$4.2 billion (U.S.)."
 - Maple Leaf Foods Inc. unveils a sweeping \$560 million (CAD) corporate restructuring initiative that will close most of its aging meat-processing plants in Canada, in an attempt to cut costs as it competes with more efficient global rivals. In an interview, Chief Executive Officer Michael McCain pledged: "to significantly boost the company's profits: by closing eight plants and distribution centres; by constructing a massive new factory in Hamilton and by upgrading plants in Brampton, Winnipeg and Saskatoon. To some degree, Maple Leaf is the poster child for the productivity gap between Canada and the United States. Maple Leaf and the Canadian (food) industry must change to be globally competitive." Predictably, the reorganization plan also comes with a human cost, since the company will cut 1,500 jobs or about 12% of its work force in the meat division, Maple Leaf's largest unit.
 - Front Page Headline, Globe and Mail – "Halifax, Vancouver Win \$33 billion (CAD) Shipbuilding Bonanza. The Canadian Federal Government awards two enormous contracts – under the National Shipbuilding Procurement Strategy spread over 30 years – of \$25 billion (CAD) and \$8 billion (CAD) to Irving Shipbuilding Inc. in Halifax, N.S. and to Seaspan Marine Corp. in Vancouver, B.C., respectively. The \$24 billion (CAD) contract heading for the Halifax Shipyard should create thousands of jobs and boost Nova Scotia's gross domestic product (GDP) by nearly \$900 million (CAD). In Vancouver, Seaspan will build seven non-combat vessels including one polar class Diefenbaker icebreaker, two naval support ships, three fisheries vessels and one oceanographic vessel, creating about 4,000 jobs.
 - Front Page Headline, Financial Times – "Europe Forced Into Second Summit. Euro zone leaders will be forced to hold a second summit, perhaps as early as Wednesday, due to the inability of Germany and France to reach an agreement on how to increase the size of the euro zone's 440 billion euro European Financial Stability Fund (EFSF)."
- ### FRIDAY, OCTOBER 21ST
- The Munich-based Ifo Institute's business climate index – based upon a survey of 7,000 executives – declined to a reading of 106.4 in October, the lowest since June 2010, from a level of 107.4 in September
 - Front Page Headline, The Globe and Mail, Report on Business – "Germany-France Split Stalls Bailout Pact. Disagreement on Creditor banks' losses and financing bailout fund means no decision will be made at key Sunday meeting."
"Efforts to resolve Europe's debt crisis have been set back even further amid a high-stakes deadlock between France and Germany, despite a push by the Group of 20 to have a plan in place by Sunday night."
"As social unrest mounted in Greece Thursday, and a new report indicated even a second bailout may not save Athens, leaders of the euro zone were forced to schedule a second summit as the two main players at the table remained divided on key issues."
"The tense stalemate, and the decision to call another meeting, underscore the difficulty of forging a plan in a 17-member monetary union. But time is running short as Greece teeters on the brink of bankruptcy."
 - Front Page Headline, Bloomberg News – "France Likely to Lose 'AAA' Rating in Stressed Economic Scenario – S&P. Assuming continued low economic growth and/or the emergence of a recession, ratings agency Standard and Poors warns of potential sovereign debt credit rating downgrades for France, Spain, Italy, Portugal and Ireland."
 - A new study by RBC Dexia reports Canadian pension plan assets which it monitors declined by 5.5% in value during the 3-month period ended September 30th. and year-to-date, pensions have lost 3.2% of their value. The hardest hit asset sector within Canadian pension investment portfolios were Canadian equities.



- Statistics Canada reports the nation's consumer price index (CPI) rose by 3.2% in the 12 months ended September 30th, following a 3.1% rate in August, led ironically, by higher food and energy prices. The core rate (ex-food and energy) rose at an annual rate of 1.9% in September following a 1.5% rate in August. (See StatCan chart).

CLOSING LEVELS FOR FRIDAY, OCTOBER 21ST.

WEEKLY CHANGE

Dow Jones Industrial Average	11,808.80	+ 164.31 points
Spot Gold Bullion (December)	\$1,636.10 (U.S.)	- \$46.90 per oz.
S&P / TSX Composite	11,949.50	- 132.23 points
10-Year U.S. Treasury Yield	2.22%	- 3 basis points
Canadian Dollar	99.29 cents (U.S.)	+ 0.33 cent
U.S. Dollar Index Future (Spot Price)	76.276 cents	- 0.346 cent
WTI Crude Oil (November)	\$87.40	+ \$0.60 per barrel

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