

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



Monday, October 24th

Front Page Headline, Bloomberg News – “Swiss Banks Ready to Reveal Clients. In order to settle a sweeping U.S. probe of offshore tax evasion by American citizens, Swiss banks are preparing to pay billions of U.S. dollars and disclose the names of

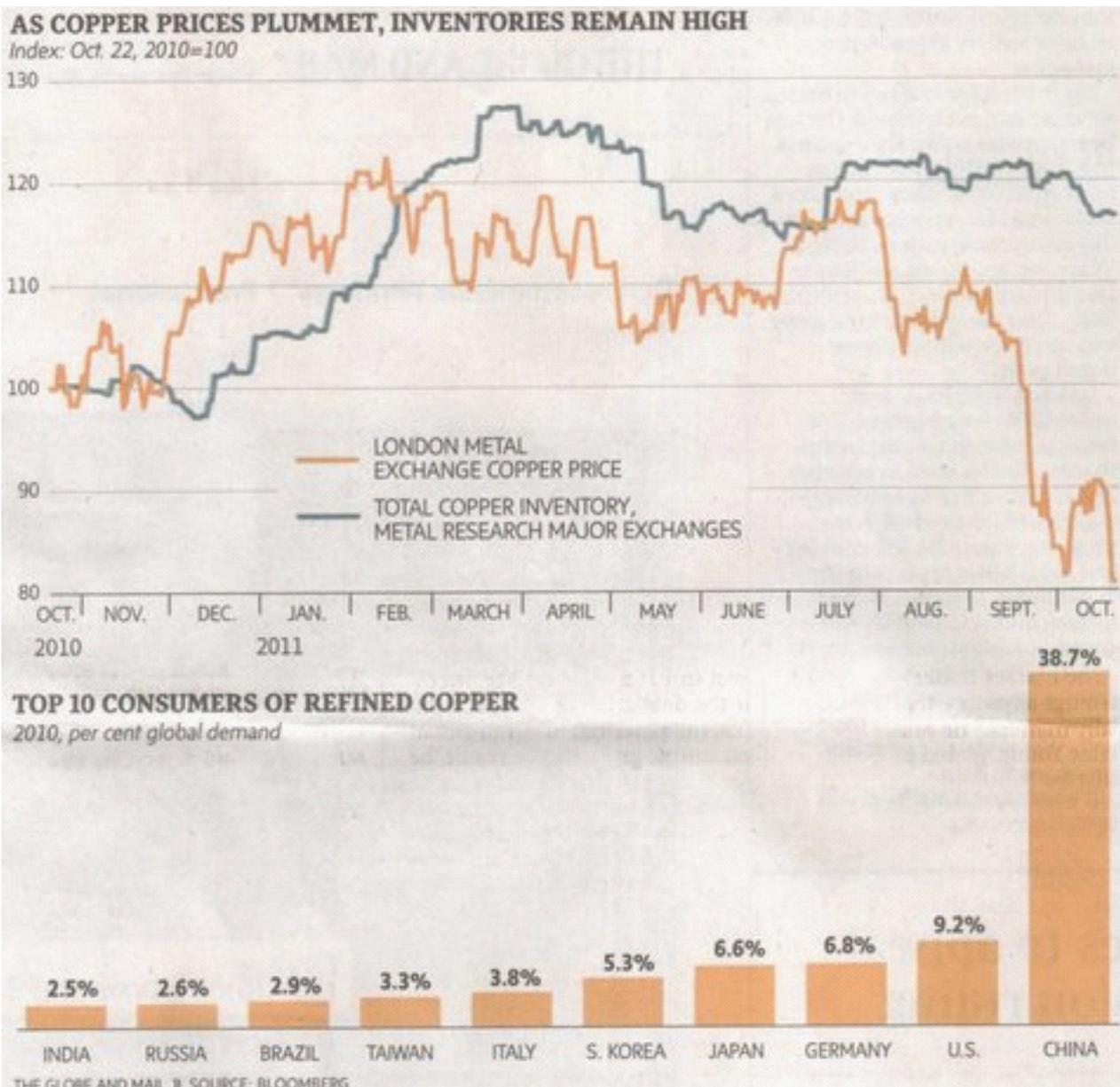
MONDAY, SEPTEMBER 3RD

thousands of Americans who have secret accounts, to the U.S. Department of Justice. American and Swiss officials are concluding negotiations on a civil settlement amid U.S. criminal probes of eleven financial institutions, including Credit Suisse Group AG (CSGN), suspected of assisting American clients hide money from the U.S. Internal Revenue Service.”

- London-based Markit Economics reports a euro zone composite index, based upon a survey of purchasing managers in the services and manufacturing sectors, declined to a reading of 47.2 in October from a level of 49.1 in September – the lowest reading since July 2009
- At a Toronto conference focusing on urban issues, Richard Fisher, President of the Federal Reserve Bank of Dallas asserts: “The Federal Open Market Committee (FOMC) doesn’t have to act at every meeting and certainly doesn’t have to react at every meeting. We have done enough. The Federal Reserve has liquefied the economy in the face of criticism from some people, including myself. Today, the gas tank is full. The challenge is how to get people to step on the gas pedal. The central bank cannot do it alone and (our actions) are seen to let the politicians off the hook. (Federal government) fiscal policy is dysfunctional in the United States.”
- Front Page Headline, Washington Post – “All U.S. Troops to Leave Iraq by Year End. The Obama administration decides to withdraw all American forces from Iraq by the end of 2011, after failing to reach an agreement with the Iraqi government which would have left several thousand troops deployed there for special operations and training purposes
- In a Globe and Mail article entitled “Falling Copper, Global Pain” journalist Carolynne Wheeler warns from Beijing: “The metal’s downward spiral points to trouble in China, fueling fears of a worldwide economic slowdown. The price of copper – used in everything from household goods to power grids – is considered a bellwether for measuring global demand and more broadly, economic health. China is thought to be responsible for some 40% of the world’s copper demand, so any decline in the need for copper here can be interpreted as having repercussions for the rest of the world. From an all-time high of \$10,150 (U.S.) per tonne in February on the London Metals Exchange, copper prices dropped to a 14-month low this month and are hovering around \$7,340 (U.S.) per tonne. China’s monthly imports of unwrought copper and semi-finished copper products rose by 11.8% in September, reaching a 16-month high. However, more ominously, its overall export growth slowed in September and a former vice-minister of commerce has predicted that 2012 could bring China’s first annual trade deficit since 1993.”

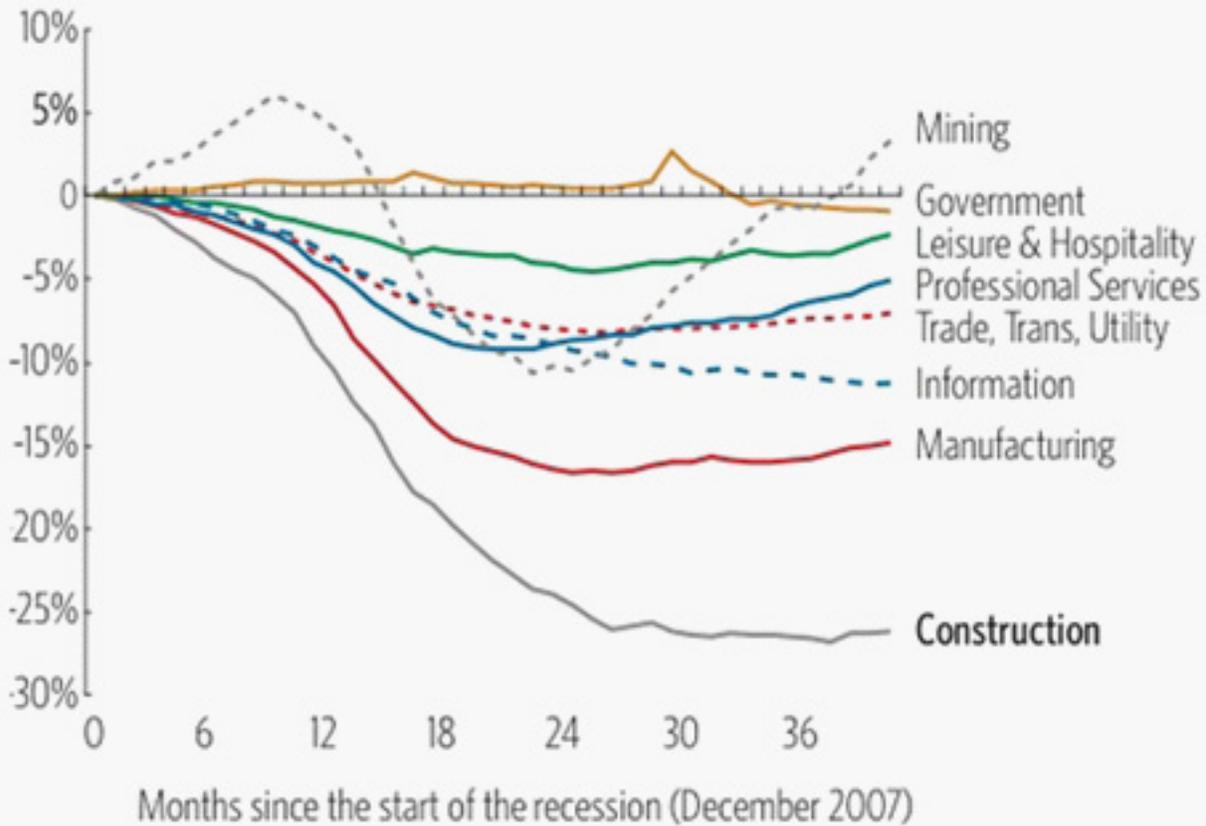
However, today a 7% rally in copper prices followed the release of HSBC's first estimate of China's purchasing managers' index for the manufacturing sector which rose to a reading of 51.1 in October from a level of 49.9 in September, its first expansion in the last three months.

- In its most recent survey, the Washington-based National Association for Business Economics reports: "U.S. companies' hiring plans reflect the worst employment outlook since January 2010, as fewer companies project payrolls to rise over the next six months, while more companies plan to cut workers. Only 29% of corporate participants plan to increase hiring, down from 43% in the survey last July." Shawn DuBravac, chief economist at the Arlington, Virginia-based Consumers Electronics Association, commented: "Business expectations are muted. The latest survey's respondents remain cautiously confident."



MoneyGame  Chart of the Day

U.S. Employment Change From December 2007



Construction employment declined the most during the recession.

- Front Page Headline, New York Times – “Obama Administration Proposes Changes to Mortgage Refinancing Program. The U.S. Government announces it will overhaul a program which allows homeowners to refinance mortgage loans at lower interest rates to address problems that have limited participation to less than one million mortgagors. The White House cited: “The changes are part of a broader plan to boost the economy via measures that do not require legislative action.” Shaun Donovan, Secretary of Housing and Urban Development, elaborated: “We have far too many Americans who have paid their bills and done everything right on their mortgages and yet, they’re still stuck with mortgage rates of 6% or 7%. The existing program has not reached the scale that we had hoped and the scale that it needs to reach.”

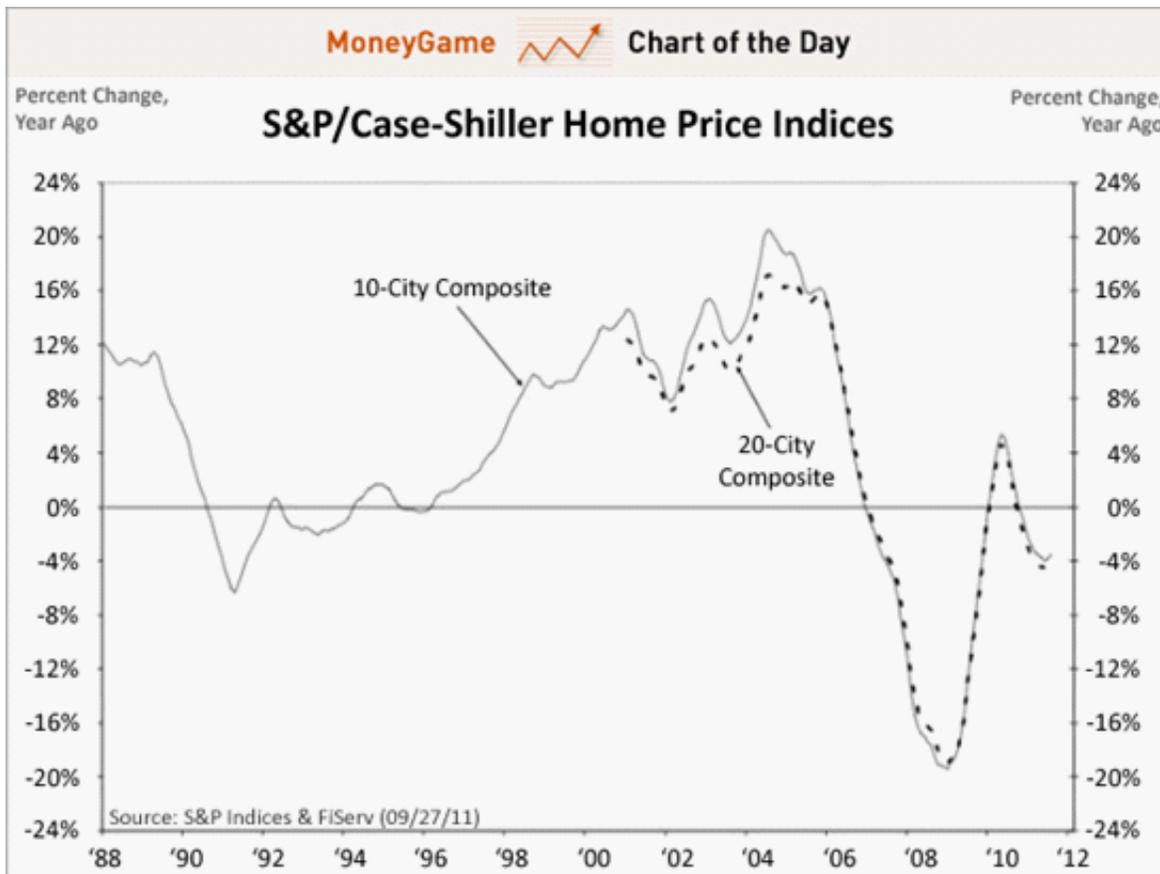
TUESDAY, OCTOBER 25TH

- Bank of Canada Governor Mark Carney leaves the Bank Rate unchanged at 1%, citing: “there is considerable monetary policy stimulus in Canada” and the good health of the nation’s financial system. “Although Canadian (GDP) growth rebounded in the third quarter with the unwinding of temporary factors, underlying economic momentum has slowed and is expected to remain modest through the middle of next year.” The central bank lowered its GDP growth forecast for Canada in 2011 to 2.1% from 2.8% last July and lowered its 2012 forecast to 1.9% from 2.6%. Surprisingly, Mr. Carney predicts a marked improvement in 2013, with the GDP expanding at a 2.9% pace.

- Front Page Headline, Reuters News Agency – “Sniping But No Solutions.” Confusion and discord threaten to derail a Euro Zone summit, hailed as both pivotal for the euro currency bloc and the global economy. With the euro zone sliding into a recession, an agreement to confront the nascent financial crisis has encountered political tensions in Italy and Germany. Wednesday is supposed to mark the adoption of a comprehensive plan of a private sector write down of Greece’s debt, a recapitalization of European banks to insulate them from toxic debt and a boost to the European Financial Stability Facility, the region’s bailout fund for weak sovereigns. Marc Chandler, manager of global currency strategy at Brown Brothers Harriman in New York, commented: “Europe’s institutional DNA is against big, comprehensive solutions, despite their rhetoric. They really espouse an incremental mindset ... There will be some disappointment.”
- The S&P / Case Shiller home price index for 10 and 20 U.S. city composites rose by 0.2% in August, but declined by 3.8% on a year-over-year basis – compared with 4.1% in July – citing a continuing high level of unemployment and residential foreclosures

- Excerpted from a recent New York speech to the Committee on Monetary Research and Education, economist Alasdair MacLeod expounded: “We can see that governments are doing just about everything wrong. They have completely failed to understand the productive difference between free markets and government intervention. They have no knowledge of the real cost of diminishing the productive private sector, to pay for the unproductive public sector. The activities of central banks have encouraged boom-bust cycles that have led to the accumulation of debt in both private and public sectors, to the point where it has finally become unsustainable. In the process, they have destroyed savings, which are the necessary prerequisite, the bedrock for any sustainable (economic) recovery.

This is the background to today’s (global debt) crisis. Governments everywhere are now trying to borrow the largest amounts of money in history, all at the same time. Moreover, to those who say that global savings are high, I say those savings are in the hands of the Chinese and Indian workers, who wisely are more likely to buy gold and silver than our government debt. Governments are now waking up to the fact that real economic growth is disappearing far into the future and taking their hoped-for tax



revenues with it. The debt trap has snapped firmly shut. Some countries, such as the euro zone members, who cannot print money to finance themselves, are simply the first victims of the imbalance between the financing requirements of governments and the available capital. Others, such as the U.K. and the U.S., who can print money, do so to defer funding problems and keep their borrowing costs low; but it is only a matter of time before they are found out.”

- The Conference Board reports its Consumer Confidence Index declined to a reading of 39.8 in October – the lowest level since March 2009 – citing concerns regarding the unemployment rate and the trend in stock prices
- Front Page Headline, New York Times – “Snapshots of Poverty’s Surge in the Suburbs of Cleveland.” Nearly 60% of the Metro Cleveland area’s poor population lives in the suburbs, compared with 46% a decade earlier. Eight other metropolitan areas shifted to a majority of suburban poor within the last decade including: Detroit, Chicago, Minneapolis, Houston, New Orleans, Oklahoma City, Buffalo, N.Y. and Provo, Utah.”

WEDNESDAY, OCTOBER 26TH

- Front Page Headline, Bloomberg News – “Ex-Goldman Director Gupta Pleads Not Guilty. Former Goldman Sachs Group Director Rajat Gupta is indicted for conspiracy and securities fraud, making him the highest-ranking executive charged in a nationwide crackdown on insider trading. Mr. Gupta, who also sat on the board of Proctor & Gamble Co., was charged with five counts of securities fraud and one count of conspiracy to commit securities fraud in an indictment citing: “From 2008 through January 2009, Mr. Gupta disclosed to Raj Rajaratnam material, non-public information that Mr. Gupta had learned in his capacity as a member of the boards of directors of Goldman Sachs and Proctor & Gamble, with the understanding that Rajaratnam would use the inside information to purchase and sell securities.” Mr. Gupta was released on a \$10 million (U.S.) bond secured by his Westport, Ct. home.
- The Commerce Department reports orders for U.S. durable goods (ex-transportation) – intended to last at least three years – rose by 1.7% in September, the most in 6 months. Separately, the Commerce Department reported U.S. new home sales rose by 5.7% in September to an annual pace of 313,000 units.

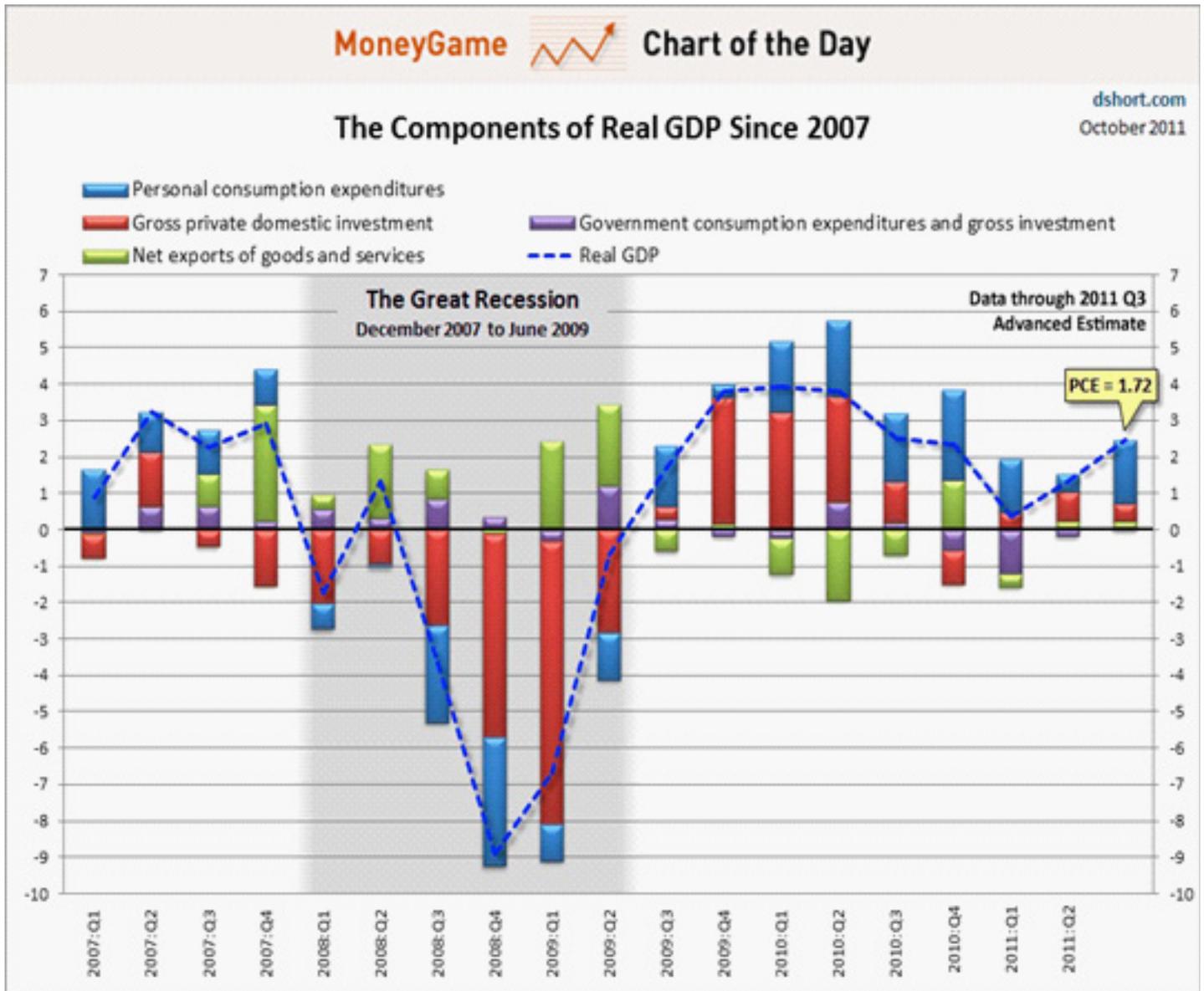
- Headline, The Globe and Mail-“Euro Woes Cloud Canada’s Future” “The threat to Canada posed by the unraveling of Europe’s common currency has grown more urgent.”
- Standard and Poors (S&P) affirms Canada’s ‘AAA’ sovereign debt credit rating with a stable outlook: “Canada’s rating reflects S&P’s opinion of the sovereign’s superior political and economic profile; as well as its strong flexibility and performance profile, as defined in our ratings criteria. These profile assessments incorporate Canada’s high dependence upon the U.S. economy. Canada’s superior political and economic profile rests, among other factors, on its policy making and political institutions, which we see as highly effective, stable and predictable. Canadian authorities have a strong track record in managing past economic and financial crises and delivering economic growth. During the recent global financial crisis and recession, no Canadian financial institution required a government injection of capital and Canadian real GDP per capita growth exceeded U.S. growth. Canadian governments have demonstrated an ability and willingness to implement reforms to ensure sustainable public finances over the long term.”
- Front Page Headline, U.K. Daily Telegraph – “Euro Zone Banks Given Just Eight Months to Raise 106 Billion Euros. The European Banking Authority announces: ‘Banks will be required to hold 9% of the highest quality capital by June 2012. French banks will target raising 8.8 billion euros; Spanish banks will target raising 26.2 billion euros; German banks will target raising 5.2 billion euros and Italian banks will target raising 14.2 billion euros.’ At the Brussels Summit, euro zone leaders failed to produce the promised “ambitious and comprehensive response” to the euro zone debt crisis and postponed decisions on the details of other rescue measures until November.

- Headline, The Globe and Mail- “New Plastic Bills Yield Spooky, Sexy Images” “Canada’s new plastic money may give you a little more bang for your buck...”Some groups compared the bills to ‘Monopoly money,’ noting the polymer they’re made out of felt less real than paper money.” What for heaven’s sake is real about paper money?

THURSDAY, OCTOBER 27TH

- Headline, The Globe and Mail-“Bailout Plan Short On Details-Latest summit agrees on a broad euro \$1trillion plan and reaches out to China and the Middle East for help.”

- Front Page Headline, Bloomberg News – “50% Greek Bond Haircut May Equal Default – Fitch. In a press release, Fitch ratings states: “The 50% nominal haircut on the proposed Greek bond exchange could be viewed by the agency as a default event under its Distressed Debt Exchange criteria. While the accord is a necessary step to put the Greek sovereign’s finances on a more sustainable footing, Greece will face significant challenges including ratios of government debt to gross domestic product (GDP) at well over 100% even in a positive scenario.”
- The Commerce Department reports U.S. gross domestic product (GDP) expanded at an annual rate of 2.5% in the 3rd. quarter, nearly double the 1.3% rate in the 2nd. quarter, citing increased consumer spending, business investment and exports
- Front Page Headline, Globe and Mail – “Chinese Housing Bubble Fears Grow. Increasing stories of slow sales and discounted property prices are raising fears of a deeper and overdue correction in the Chinese housing market. In Shanghai this week, a firestorm of protest erupted when developers offered price discounts of as much as 40% on new apartments. Several hundred buyers, who had paid cash at the full price, were furious that their homes had lost so much value before they even got the keys.”
“Increasingly common stories of slow sales and discounted property are raising fears of a deeper, and many say, overdue correction in the Chinese property market.”



FRIDAY, OCTOBER 28TH

- The Thomson Reuters / University of Michigan Index of consumer sentiment rose to a reading of 60.9 in October following a level of 59.4 in September
- Canada's Finance Department reports the federal government posted a \$3.6 billion (CAD) deficit in August, an improvement from the \$5.8 billion (CAD) deficit posted in August 2010
- The Commerce Department reports U.S. consumer spending rose by 0.6% in September, however, personal income rose by only 0.1%, suggesting consumers were drawing down from savings to bolster spending
- Spanish jobless total climbs to almost 5 million or 21.5% of the workforce in the third quarter.
- Front Page Headline, CNN Business News – "Cracking Down on Occupy Protests. The Mayors of Atlanta and Oakland order "Occupy Wall Street" protestors from city parks. Arrests are made by police using 'non-violent' tactics and protestors are released within 30 hours 'on their own recognizance.'

CLOSING LEVELS FOR FRIDAY, OCTOBER 28TH.		WEEKLY CHANGE
Dow Jones Industrial Average	12,231.10	+422.30 points
Spot Gold Bullion (December)	\$1,747.20 (U.S.)	+ \$111.10 per oz.
S&P / TSX Composite	12,519.50	+ 570 points
10-Year U.S. Treasury Yield	2.33%	+ 11 basis points
Canadian Dollar	100.84 (U.S.)	+ 1.55 cent
U.S. Dollar Index Future (Spot Price)	75.089 cents	- 1.187 cent
WTI Crude Oil (December)	\$93.32 (U.S.)	+ \$5.92 per barrel

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