

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

# THAT WAS THE WEEK THAT WAS

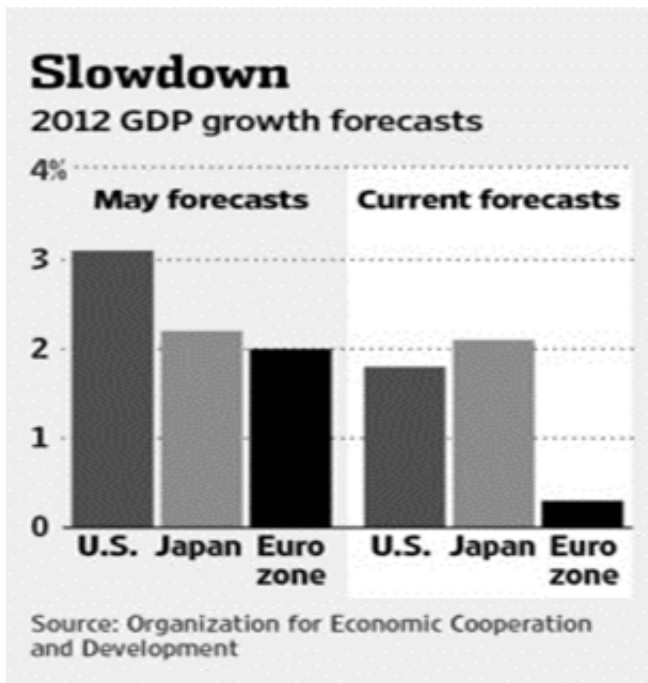


Monday, October 31st

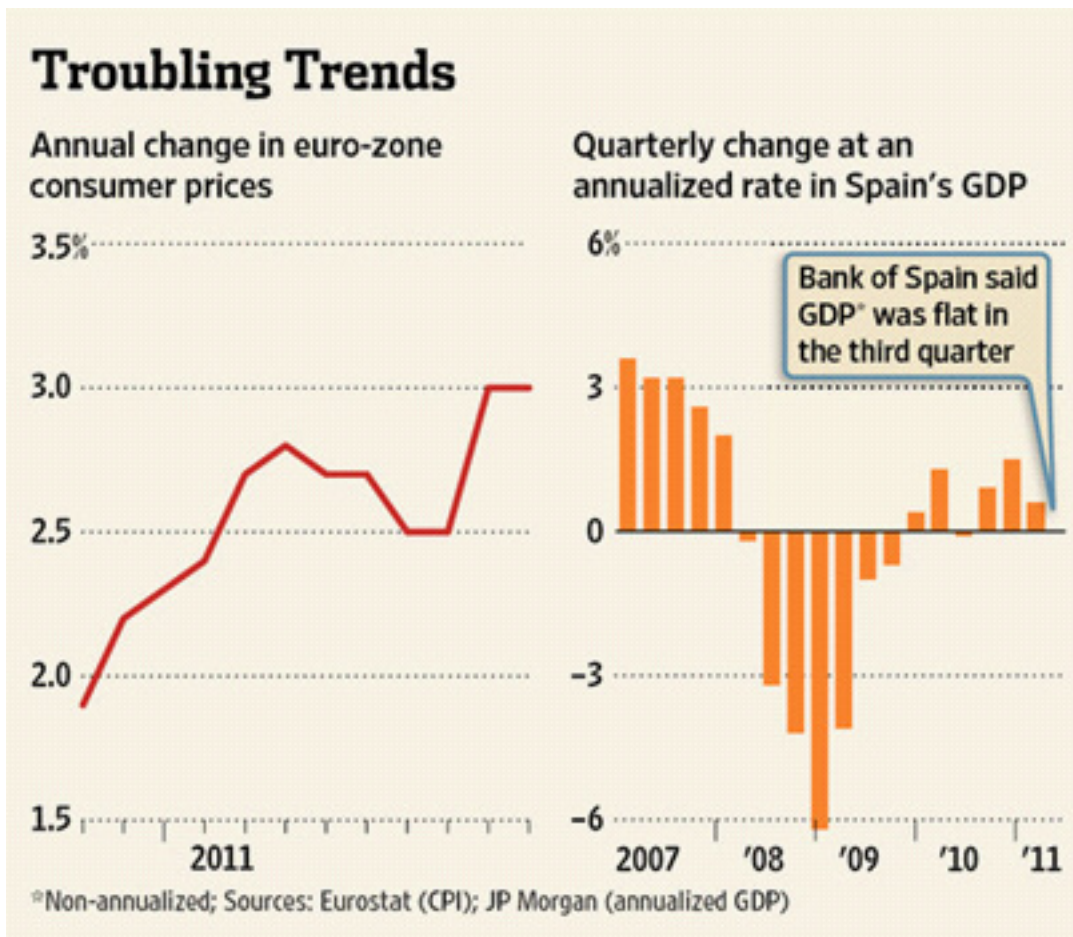
The Institute for Supply Management Chicago, Inc. reports its purchasing managers' index (PMI) declined to a reading of 58.4 in October, following a level of 60.4 in September

## MONDAY, OCTOBER 31ST

- MF Global Holdings Ltd. – a clearing company for the broker / dealer community – files for Chapter 11 bankruptcy protection in U.S. Bankruptcy Court in Manhattan, citing losses in proprietary trading positions in European sovereign debt. The company's chief executive officer is Jon Corzine, a former U.S. Senator and Governor of New Jersey.
- Front Page Headline, Bloomberg News – “U.S. Raises Borrowing Estimates on Spending, Lower Revenue. The U.S. Treasury raises its estimate for 4th. quarter government borrowing by \$21 billion (U.S.) to \$305 billion (U.S.), reflecting in part lower revenue and higher spending. The estimates set the stage for the Treasury's quarterly refunding announcement later this week: “The increase in borrowing relates to lower receipts, higher outlays and changes in the cash balance assumptions, partially offset by higher net issuances of state and local government series securities.”
- Front Page Headline, Globe and Mail – “Canadian Mint Forges a New Path to Cash in on Gold Fever. The Royal Canadian Mint is capitalizing on the gold rush by offering a \$250 million (CAD) new issue of gold receipts that will trade on the Toronto Stock Exchange. The Mint's exchange traded receipts (ETRs) will be redeemable for gold bullion – coins or bars – plus relatively low fees. The Mint's chief executive officer Ian Bennett commented: “This new program will build upon our reputation ... as a world class custodian of precious metals.”
- Greek Prime Minister George Papandreou announces an unexpected referendum on the new European Union bailout proposal for his debt-ridden country; a move that would prompt snap elections if the public – angry about austerity measures – rejects the terms.
- In a downwardly revised economic outlook, the Organization for Economic Cooperation and Development (OECD) forecasts two years of weak economic growth and high unemployment for advanced economies, with the outlook likely to worsen unless Europe can solve its sovereign debt crisis. The OECD urged the European Central Bank (ECB) to cut interest rates and recommended that other central banks keep administered interest rates on hold and provide liquidity to the financial system to ease market tensions. The Paris-based OECD now predicts: “U.S. gross domestic product (GDP) will grow by 1.8% in 2012, less than the 3.1% expansion it has forecast last May. The OECD now expects euro zone GDP will expand by only 0.3% next year, far below the 2% rate it forecast five months ago. Debt-to-GDP ratios will keep rising, reaching in two years' time 108.7% in the U.S., 97.6% in the euro zone and 227.6% in Japan.” Separately, the International Labour Organization (a United Nations agency) reported that 80 million net new jobs will be needed globally over the next two years to return to pre-crisis employment levels.



- Front Page Headline, Wall Street Journal – “Euro Zone Unemployment Hits Record High and Spain’s GDP Goes Flat. Eurostat, the EU statistics agency reports euro zone unemployment increased by 188,000 to 16.2 million, or 10.25%, in September – the highest level for the euro area since records commenced in 1998. Separately, the Bank of Spain reported the nation’s GDP was flat in the 3rd. quarter, while the unemployment rate reached 22.6% in September, the highest rate in the euro zone.
- Front Page Headline, New York Times – “Japan Acts Alone to Weaken It’s Currency. The Japanese government intervenes in the foreign exchange market selling yen for U.S. dollars, for the fourth time in a little more than a year. The strong yen is a burden for Japan as it seeks a path to economic recovery after natural and nuclear disasters this year. While companies have been quick to rebuild factories and restore supply chains, the yen has undermined revival for the nation’s exporters – which drive much of its economic growth – by making their products less competitive overseas.”

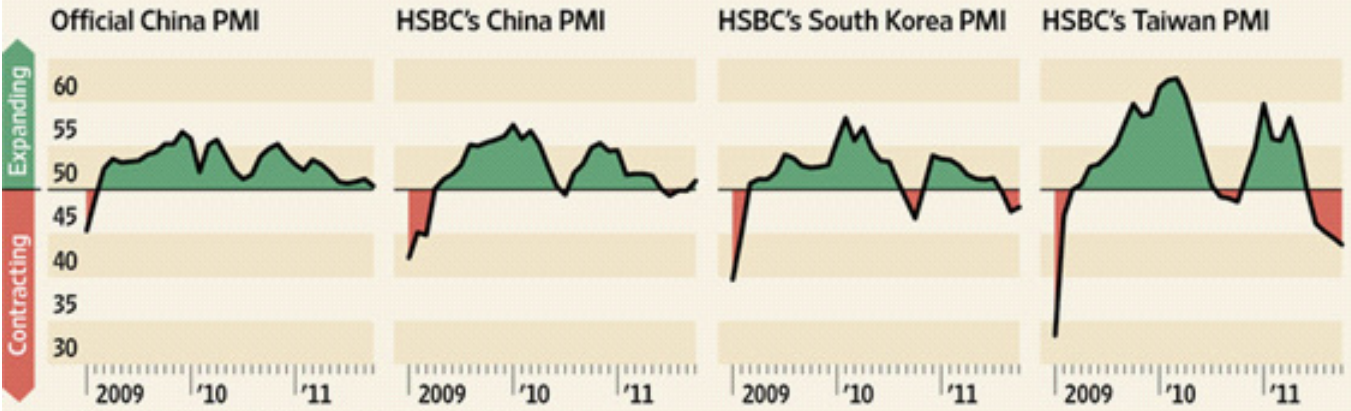


- The Reserve Bank of Australia (RBA) cuts its benchmark lending rate by 25 basis points to 4.5%, its first rate cut since April 2009. Glenn Stevens, Governor of the RBA commented: "Recent information is consistent with a moderation in the pace of global growth, although fears of a major (economic) slow down have not been borne out to date." In its statement, the RBA highlighted continued uncertainty in Europe and "turmoil" in the markets, which has dented confidence among both companies and households. It also cited recent falling commodity prices and slowing economic growth in China, a major market for Australia's commodities.
- Front Page Headline, Wall Street Journal – "MF Global Scrambles to Survive After Bad Bond Bets." Jon S. Corzine, the former New Jersey Governor and Goldman Sachs Chairman raced over the weekend to find a buyer for MF Global Holdings Ltd., to rescue the securities firm he runs from a crisis largely of his own making. In late 2010, Mr. Corzine started making big bets on bonds issued by European countries. He sometimes placed orders himself based upon a list of prices left with an assistant, according to people familiar with the situation. Mr. Corzine, who made his name and fortune as a U.S. Treasury bond trader at Goldman, was convinced the sovereign debt of countries like Italy and Spain – with high yields – was a steal. Well, Mr. Corzine may we remind you: "That it's the debt, stupid."

## TUESDAY, NOVEMBER 1ST

- The Tempe, Arizona-based Institute for Supply Management's factory index declined to a reading of 50.8 in October from a level of 51.6 in September. Richard DeKaser, a senior economist at the Parthenon Group commented: "Many businesses are working to pare inventories and that has resulted in diminished demand for merchandise. The factory sector is still suffering the consequences of the softness during the first half of the year."
- The Office for National Statistics reports the U.K. gross domestic product (GDP) rose by 0.5% in the 3rd. quarter, citing leadership from the finance and business sector which rose by 0.8%, the most since the 3rd. quarter of 2007
- The Commerce Department reports U.S. construction spending rose by 0.2% in September, following a 1.6% gain in August, citing multi-family housing construction is helping to lift activity from decade lows, as more families opt to rent rather than purchase a new home.
- Credit Suisse Group AG – Switzerland's second-largest bank – announces 1,500 job layoffs (in addition to the 2,000 announced in July) and a reorganization of its securities unit in order to reduce costs. Dirk Becker, a Frankfurt-based analyst at Kepler Capital Markets commented: "Credit Suisse is attempting to solve its earnings problems through aggressive downsizing. It's very difficult to achieve, since once you fall out of the competition with the biggest investment banks, it becomes more difficult to attract good people, even in the areas the bank wants to retain."
- The China Federation of Logistics and Purchasing reports the country's purchasing managers' index (PMI) declined to a reading of 50.4 in October from a level of 51.2 in September. Wang Tao, a Hong Kong-based economist at UBS AG commented: "The PMI reading is a reflection of slowing momentum in the economy and exports may decline sharply in the coming months. (Monetary) policy will ease more visibly in the first quarter of 2012."
- Front Page Headline, New York Times – "Stock Slide Extends to Wall Street. Political disarray in Greece again forces stock markets sharply lower in Europe and the United States, where the Dow Jones Industrial Average closed down by almost 300 points. Steady declines which began in Asia accelerated in Europe, post a surprise announcement from the Greek Prime Minister George Papandreou late yesterday that his government would hold a referendum on a new aid package for Greece. A revolt by Greek lawmakers today and a non-confidence vote set for Friday risks a government collapse."
- U.S. automakers report the annual sales rate for October was about 13.2 million vehicles – the best performance by the industry since February – citing stable gas prices and a surge in sales of pickup trucks at General Motors, Ford Motor and Chrysler Corp. Separately, according to Desrosiers Automotive Consultants Inc., Canadian industry-wide auto sales rose by only 2.1% in October.
- Front Page Headline, Wall Street Journal – "Asian Economies Weaken as European Woes Take Toll. Manufacturing activity in parts of Asia was sluggish in October, reflecting strains on the region's export dependent economies from Europe's sovereign debt crisis and efforts to cool inflation that has plagued several countries this year. Purchasing managers' indexes showed Taiwanese manufacturing activity contracted at its fastest rate in almost three years in October, while South Korean output continued to shrink, although at a slower pace than in September." (See chart below).

### Sluggish Manufacturing Growth



Sources: China Federation of Logistics and Purchasing; Markit Economics

MoneyGame  Chart of the Day

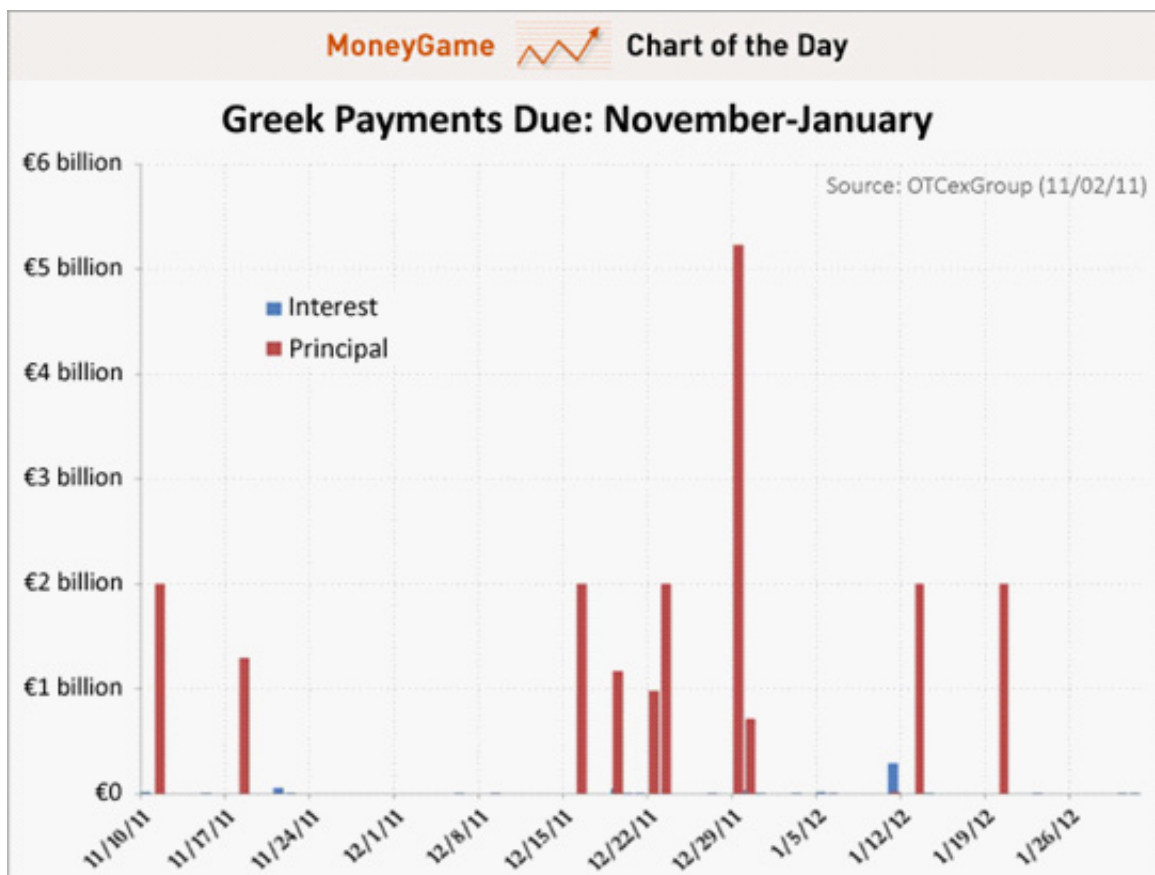
### Italian-German 10-Year Spread



- Front Page Headline, Financial Times – “Italian Bond Yield Spreads Reach Euro Era High. The (yield) premium Italy pays to borrow 10-year money over German (1.75% yields) soars to 450 basis points (or 6.25%), a key trigger point that could require bond investors to provide additional cash if buying on margin.” (See chart above).
- Front Page Headline, Business Insider – “Fitch Ratings Joins the Mass ‘Freak-out’ Over Greek Referendum. From the Fitch research team: “A rejection of the EU-IMF program recently negotiated by the Greek government would increase the risk of a forced and disorderly sovereign default and ... potentially, a Greek exit from the Euro; both of which would have severe financial implications for the financial stability and viability of the euro zone. The announcement of a referendum late Monday underscores the urgency of establishing a credible firewall to prevent contagion from Greece destabilizing the euro zone. The uncertainty over whether Greece will accept the EU-IMF program ... also increases the uncertainty around the losses that creditors may incur and hence bank recapitalization. In Fitch’s opinion, it is essential that there is rapid progress in making operational the enhanced ‘firepower’ of the European Financial Stability Facility and that the European Central Bank stands ready to intervene in the secondary market to moderate the contagion to solvent, but potentially illiquid sovereigns, notably Italy and Spain.”

### WEDNESDAY, NOVEMBER 2ND

- At a Washington press conference – following a meeting of the Federal Reserve Open Market Committee (FOMC) – Fed Chairman Ben Bernanke reported the FOMC left unchanged its plans to lengthen the maturity dates of the Fed’s bond portfolio and decided to maintain the Fed Funds rate in a 0% to 0.25% range through at least mid-2013, “as long as unemployment remains high and the inflation outlook remains subdued ... (Since) the housing market is a very important sector, additional purchases of mortgage-backed securities are a viable option if the state of the economy warrants further easing. The medium-term (economic) outlook relative to our June projections has been downgraded and remains unsatisfactory, but additional stimulus remains on the table.”
- Automatic Data Processing (ADP) and Macro Economic Advisors report the U.S. private sector added 110,000 jobs in October. Separately, outplacement firm Challenger, Gray and Christmas reports the number of planned job cuts announced by U.S. employers declined by 63% to 42,759 in October, the lowest monthly total since June.
- The Dallas-based Young Presidents’ Organization reports its index of business sentiment declined to a reading of 57.7 in the 3rd. quarter from a level of 61.1 in the 2nd. quarter, and its lowest reading in over a year. Alan Zafran, managing partner of Los Angeles-based Luminous Capital LLC commented: “Most chief executive officers are confident in the strength of their own organizations, but are deeply concerned that other factors beyond their control may hamper their companies’ performance.”
- According to Yediot Ahronot, Israel’s largest daily newspaper, the Israeli government may be planning a pre-emptive military strike on Iran’s nuclear program amid intelligence reports that Iran is attempting to engineer and test nuclear weapons at a series of banned production sites in defiance of United Nations’ sanctions.
- Front Page Headline, Globe and Mail – “No More Aid for Greece Until It Decides on Euro: Sarkozy. In a news conference, following talks between senior European leaders and Greek Prime Minister George Papandreou, French President Nicolas Sarkozy warned: “Greece will receive no additional European bailout aid until it has put an end to uncertainty and agreed to meet its commitments to the euro zone. Our Greek friends must decide whether they want to continue the journey with us.”
- Front Page Headline, U.K. Daily Telegraph – “Greece Will Be Cut Adrift if Bailout Is Refused: EU. Greece faces the threat of bankruptcy within weeks, after the European Union warned it would not provide any additional funding to the beleaguered country unless it agrees to support the euro zone bailout. Simon Johnson, former chief economist at the IMF warned: “We are now looking straight into the face of a great depression.”
- Front Page Headline, Financial Times – “Russia Clears Final Hurdle to Joining WTO. Maxim Medvedkov, Russia’s World Trade Organization (WTO) accession negotiator, informs state media that Moscow has finally agreed to the terms of a compromise agreement with Georgia ... The agreement should enable Russia to be formally invited to join the trade body in time for the WTO’s December ministerial meeting. How naïve and gullible is the WTO membership? By granting Russia WTO membership, especially when ‘Vladimir the Terrible’ is about to assume the Russian presidency in March 2012 for what will ultimately be two six-year terms, the West will be granting admission to the devil incarnate: the equivalent of the Hell Angels, the Italian Mafioso and the Mexican Zetas drug cartel all rolled into one. Canada, the United Kingdom and the United States will rue the day!



The above chart sends a strong signal that if the Greek government and populace don't vote 'yes' to the latest EU bailout proposal by December 29th., their country's EU membership will lapse into memory.

Comment Page, U.K. Telegraph – "Revenge of the Sovereign Nation, by International Business Editor Ambrose Evans-Pritchard.

"Greece's astonishing decision to call a referendum – 'a supreme act of democracy and of patriotism', in the words of Prime Minister George Papandreou – has more or less killed last week's EU summit deal."

The Greek referendum – if it is not overtaken by a collapse of the government first – has left officials in Paris and Berlin speechless with rage. The ingratitude of them."

"The spokesman for French President Nicolas Sarkozy said the move was 'irrational and dangerous'. Rainer Bruderie, Bundestag leader of the Free Democrats, said the Greeks appear to be 'wriggling out' of a solemn commitment. 'They face outright bankruptcy', he blustered.

"Well yes, but at least the Greeks are stripping away the self-serving claims of the creditor states that their 'rescue' loan packages are to save Greece".

"They are nothing of the sort. Greece has been subjected to the greatest fiscal squeeze ever attempted in a modern industrial state, without any offsetting monetary stimulus or devaluation".

"The economy has so far collapsed by 14% to 16% – depending on who you ask – and is spiraling down at a vertiginous pace."

"The debt has exploded under the EU—IMF Troika program. It is heading for 180% of GDP by next year. Even under the haircut deal, Greek debt will be 120% of GDP in 2020, after nine years of (economic) depression. That is not a cure, it is a punitive sentence'.

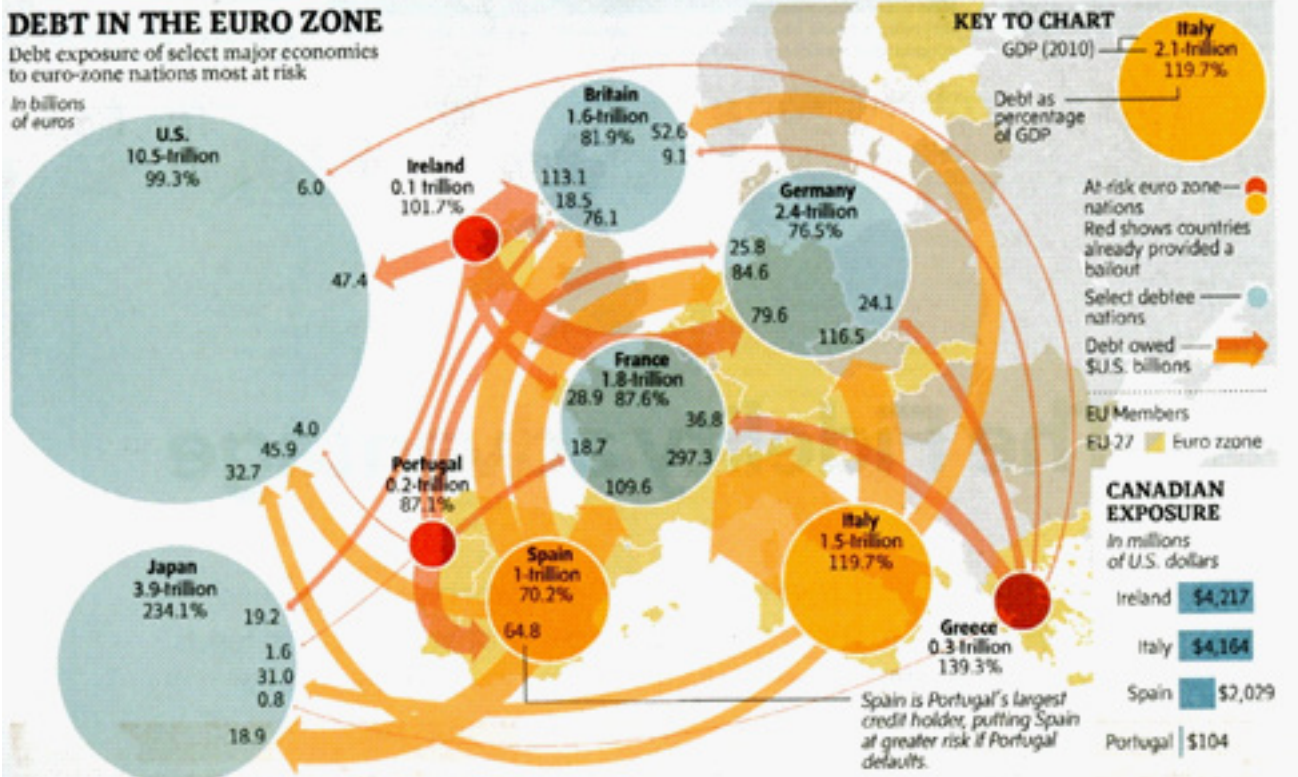
Unless the European Central Bank steps in very soon and on a massive scale to shore up Italy, the game is up. We will have a spectacular smash-up".

"If handled badly, the disorderly insolvency of the world's third largest debtor with 1.9 trillion euros of public debt and nearly 3.5 trillion euros in total debt, would be a much greater event than the fall of the Credit Anstalt in 1931".

### DEBT IN THE EURO ZONE

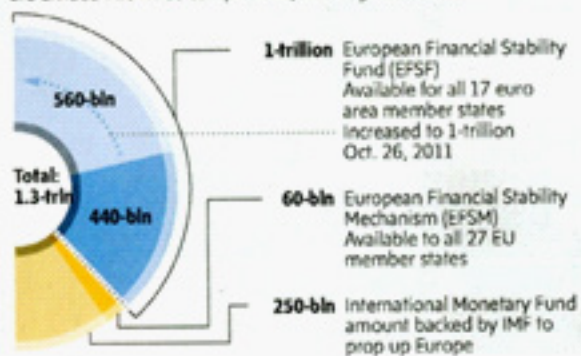
Debt exposure of select major economies to euro-zone nations most at risk

In billions of euros



### EU FINANCIAL STABILITY PACKAGE

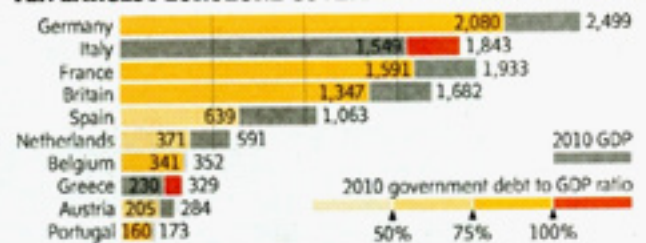
The funds to stabilize European markets, established in May 2010, are divided into three components, totalling 1.3-trillion.



### Nation-specific bailout packages



### TEN LARGEST EUROZONE GOVERNMENT DEBT



### CONTAGION SPREAD

How sovereign debt has spread through the EU.

#### IRELAND

Next to fail. A huge price tag incurred for bailing out its banks and weeks of market pressure forced it to request help.

**PORTUGAL**  
A shrinking economy has strained the country's budget, forcing it to take a bailout in May this year.

**SPAIN, ITALY**  
The next most at-risk nations have seen borrowing costs skyrocket, though their economies are too large to realistically bail zout.



GRAPHIC NEWS & SOURCES: REUTERS, BANK OF INTERNATIONAL SETTLEMENTS, WORLD BANK, EUROSTAT

MoneyGame  Chart of the Day

### Euro Stoxx 600 Intra-Day Chart – November 3, 2011

Source: Reuters / Scott Barber (Nov 2011)





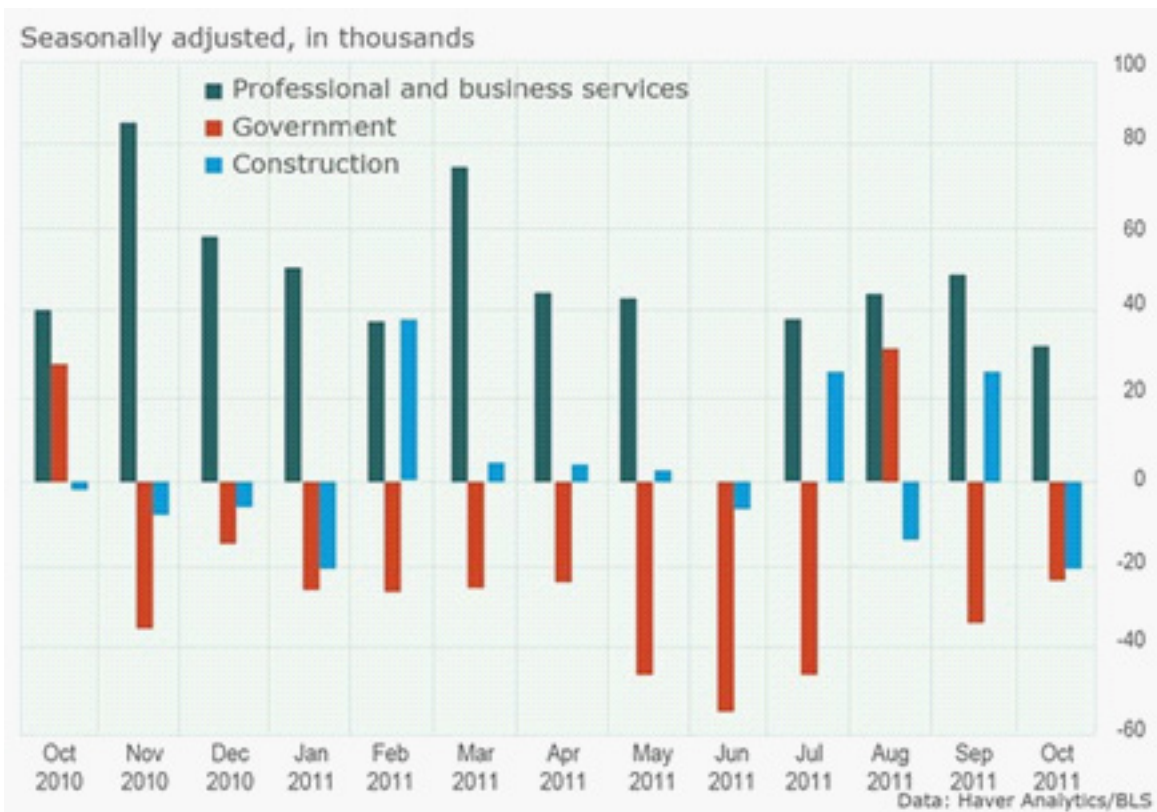
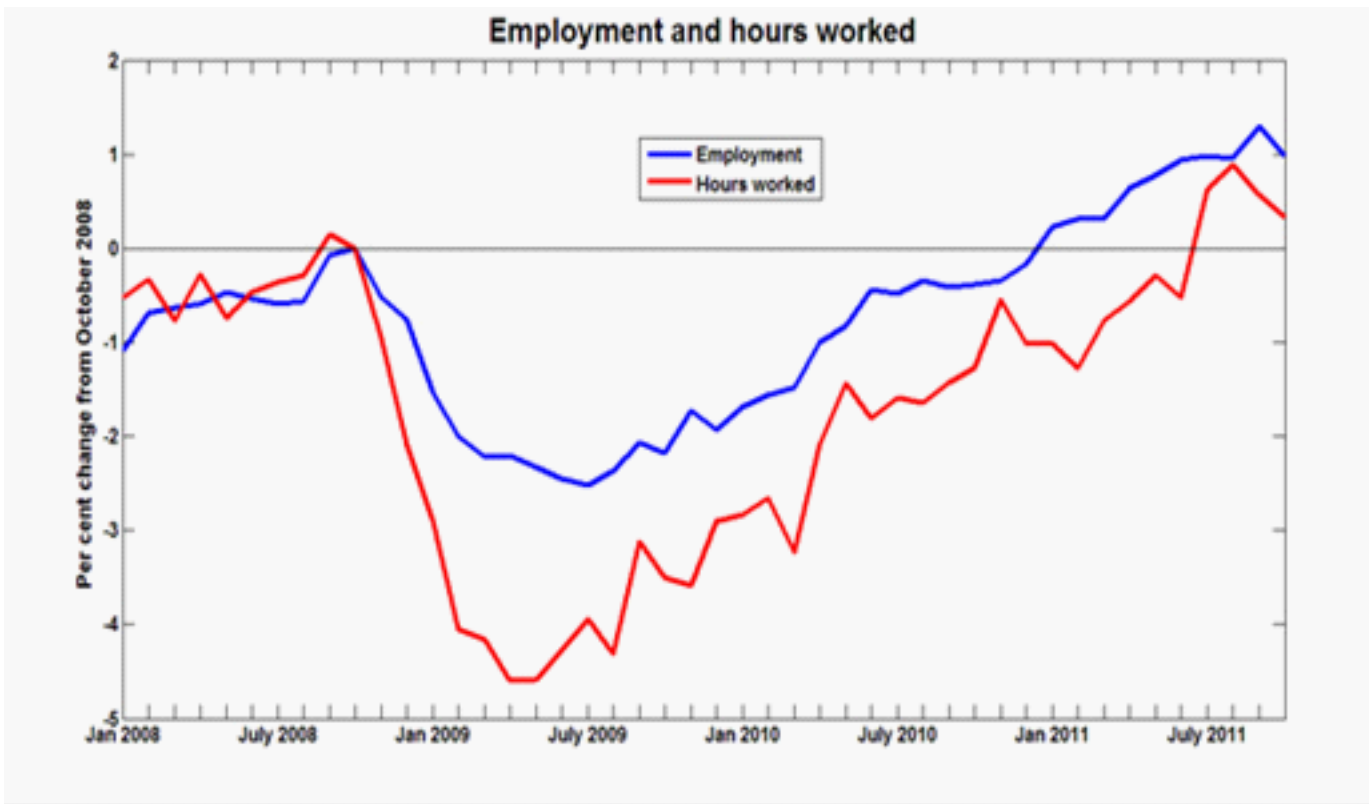
## THURSDAY, NOVEMBER 3RD

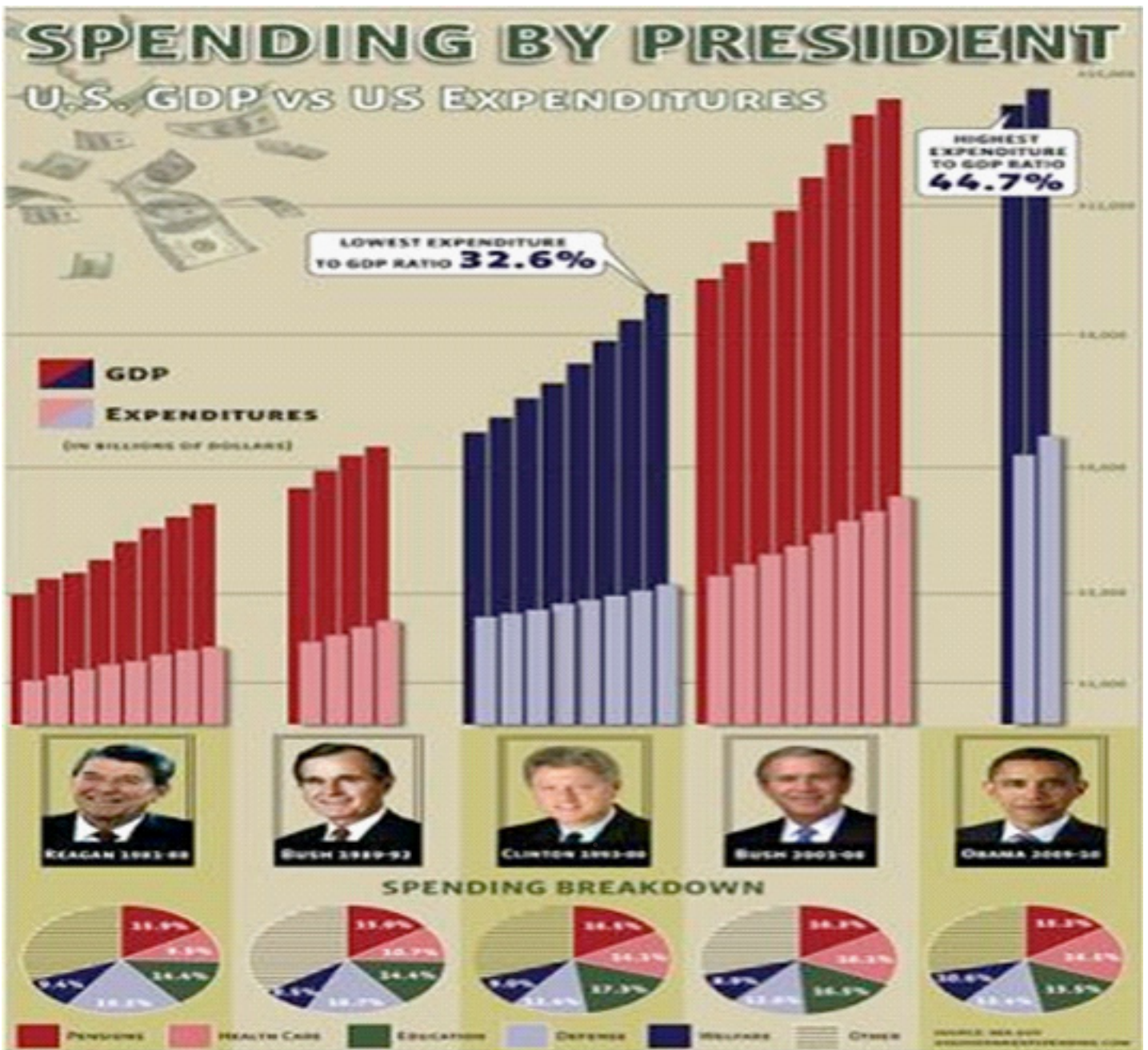
- The European Central Bank (ECB) unexpectedly, cuts its benchmark lending rate by 25 basis points to 1.25%, but signaled no plans to backstop the EU's most vulnerable nations. Mario Draghi, the new President of the European Central Bank warned: "The European economic outlook continues to be subject to a particularly high level of uncertainty and intensified downside risks. Some of these risks have been materializing, which makes a significant downward revision very likely, to forecasts and projections for average real GDP growth in 2012. The ECB now expects a mild recession by the year end."
- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 9,000 to 397,000 in the week ended October 29th. while continuing claims fell by 15,000 to 3.68 million in the week ended October 22nd. Those people who have exhausted their traditional benefits, but may be receiving emergency or extended benefits under federal programs increased by about 39,300 to 3.49 million in the week ended October 15th.
- Front Page Headline, Globe and Mail – "Greek Opposition Storms Out of Parliament, Seeks Papandreou's Resignation. During a parliamentary debate, concerning the viability of the Greek government, Antonis Samaras, the main Greek opposition leader, demanded the resignation of Prime Minister Papandreou and then led his party in a dramatic walkout. A parliamentary vote of non-confidence is scheduled for Friday."
- Front Page Headline, Wall Street Journal – "Freddie Again Draws Government Assistance. The Federal Home Loan Mortgage Corporation (Freddie Mac) taps the U.S. Government for another \$6 billion (U.S.) in aid, after the mortgage giant's loss widened to \$4.4 billion (U.S.) in the 3rd. quarter. The company needs the new funds, not only to cover the quarterly loss, but also to cover the \$1.6 billion (U.S.) it borrowed to pay required quarterly dividends back to the government. Borrowing funds in order to pay dividends on monies previously borrowed from the government. Brilliant!"
- U.S. same store sales (at stores open at least one year) at 22 chain retailers tracked by Thomson Reuters rose by 3.4% in October, following a 5.1% gain in September. Barbara Kahn, Director of the Baker Retailing center at the University of Pennsylvania's Wharton School commented: "The figures reflect the general uncertainty of consumers. People are still dealing with high unemployment and a soft housing market; and now there is instability in the European economies, which has affected U.S. financial markets."

- Front Page Headline, Wall Street Journal – "China and Russia Singled Out for Cyber Spying. In a new report, the U.S. Office of the National Counterintelligence Executive accuses the Chinese of being the 'most active and persistent' perpetrators of economic spying and Russian intelligence agents are also "extensively spying" to collect U.S. economic data and technology.

## FRIDAY, NOVEMBER 4TH

- Front Page Headline, Bloomberg News – "Papandreou Calls for a New Coalition Government. Greek Prime Minister George Papandreou survives a confidence vote in parliament, after pledging to form a new coalition government, aimed at winning broader public support for a bailout package for Greece. Mr. Papandreou used the vote to call for general elections in February. However, the 59 year-old Prime Minister is not expected to lead the new interim government: "We must agree upon common goals for a timetable and program even for the head of this government. The scale of the task facing Greece exceeds the abilities of any one party."
- Front Page Headline, Globe and Mail – "With Europe at the Brink, Greece Bends to Pressure. As France and Germany force Greece to scrap its referendum plan, a small victory is declared, but the ideal of a union of equals suffers a blow. In an effort to avoid a financial catastrophe, Europe's leaders persuaded Athens late Thursday to back away from a referendum; but the result, which involved threats to expel Greece from the euro zone, has destroyed any sense of democratic solidarity uniting them. This probably staved off a devastating run on the euro that could have brought down the Italian and Spanish economies and placed France's stability in peril. However, it also ended the principle of unity among the 17 countries that share the euro: it is possible for the wealthier members to override the democratic systems of the poorer ones."
- Statistics Canada reports the nation's factory employment level reached a 35-year low last month and represents the main reason why the economy lost 54,000 jobs, the most since February 2009. The job losses caused the country's unemployment rate to increase slightly to 7.3% from 7.1%. Avery Shenfeld, chief economist at CIBC World Markets, commented: "The world is beating down our door for our resources at a greater rate than for our manufactured goods. The outlook for manufacturing jobs is bleak ... the combination of sluggish growth beyond our borders and a still-elevated Canadian dollar doesn't give much promise to manufacturing as a source of employment growth."





Source: UK Daily Telegraph

- Front Page Headline, Washington Post – “Debt-reduction Supercommittee Talks Appear to Be at An Impasse. Washington’s latest exercise in debt reduction appears to be at an impasse, as members of a special congressional committee charge toward a Thanksgiving Day deadline with no movement on the fundamental question of whether to raise taxes. Talks continue between congressional leaders and members of the supercommittee, but the panel has no further meetings scheduled and no path

to compromise on a plan to cut at least \$1.2 trillion (U.S.) from projected borrowing over the next decade. Supercommittee member Senator Max Baucus (D-Mt.), Chairman of the Senate Finance Committee remarked: “In a word, the talks are stolid, not stalled, but stolid,” suggesting they are not easily excited or moved. Political gridlock persists.

- The Labor Department reports U.S. non-farm payrolls increased by 80,000 in October while the unemployment rate fell slightly to 9% from 9.1%
- Front Page Headline, Wall Street Journal – “Regulators Close Banks in Nebraska, Utah. Mid City Bank Inc., based in Omaha, is closed by the Nebraska Department of Banking and Finance, the state’s first bank failure of 2011. Utah also had its first FDIC-insured bank failure of the year as regulators closed SunFirst Bank, based in St. George, bringing the nationwide tally of bank failures to 87 for the year.

CLOSING LEVELS FOR FRIDAY, OCTOBER 28TH.		WEEKLY CHANGE
Dow Jones Industrial Average	11,983.24	– 247.86 points
Spot Gold Bullion (December)	\$1,756.10 (U.S.)	+ \$8.90 per oz.
S&P / TSX Composite	12,408.25	– 111.25 points
10-Year U.S. Treasury Yield	2.03%	– 30 basis points
Canadian Dollar	98.36 cents (U.S.)	– 2.48 cents
U.S. Dollar Index Future (Spot Price)	76.911 cents	+ 1.822 cent
WTI Crude Oil (December)	\$94.26 (U.S.)	+ \$0.94 per barrel

Ian A. Gordon, The Long Wave Analyst [www.longwavegroup.com](http://www.longwavegroup.com)

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