Monday November 21st, 2011

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, November 21st

Front Page Headline, Globe and Mail – "France's Credit Rating Faces New Dangers. Moody's Investors Service suggests a recent increase in French government bond yields and weaker economic growth prospects could be negative for France's

MONDAY, NOVEMBER 21ST

'AAA' credit rating. In Moody's Weekly Credit outlook, Senior Credit Officer Alexander Kockerbeck warns: 'Elevated borrowing costs persisting for an extended period would amplify the fiscal challenges the French government faces, amid a deteriorating economic growth outlook, with negative credit implications."

- Front Page Headline, Globe and Mail – "Debt Crisis Strikes at Heart of Europe. At a Brussels seminar, European Monetary and Economic Affairs Commissioner Olli Rehn warns: 'This debt crisis is hitting the core of the euro zone. We should have no illusions about this. One simply cannot build an (economic) growth strategy on accumulating more debt, when the capacity to service the current debt is questioned by the (fixed income) markets. One cannot force foreign creditors to lend more money, if they don't possess the confidence to do it."

- Front Page Headline, Wall Street Journal – "MF Trustee Doubles Estimate of Missing Funds. Trustee James Giddens, overseer of the winding down of MF Global Holdings Ltd.'s brokerage, reports as much as $1.2 billion (U.S.) in customer funds could be missing from the failed firm; more than double the original estimate of missing cash. In a statement, Mr. Giddens allowed: 'Returning 60% of funds to the firm's former customers – a previously stated goal – will require $1.3 billion (U.S.) to $1.6 billion (U.S.). Those figures represent virtually all of the assets under the trustee's control."

- The National Association of Realtors reports U.S. existing home sales rose by 1.4% in October to a seasonally adjusted annual pace of 4.97 million units, citing sales are suffering from a steep decline in first-time buyers; as well as higher down payment requirements

- Front Page Headline, Wall Street Journal – "U.S. Sued for $25 Billion in AIG Takeover. Three years after the federal government takeover of American International Group Inc., longtime former chief executive Maurice "Hank" Greenberg is launching a broad $25 billion (U.S.) legal assault that paints the government's move as unconstitutional. Starr International Co., a firm managed by Mr. Greenberg, that was AIG's largest shareholder at the time of the 2008 government rescue, filed a lawsuit in the U.S. Court of Federal Claims. The suit alleges that by obtaining a nearly 80% stake in AIG in exchange for providing tens of billions of dollars in aid, the government took valuable property from Starr and other AIG shareholders in violation of the Fifth Amendment, which says that private property can't be taken for 'public use without compensation."

- In a report entitled, The Last Days of the Euro, economists with Credit Suisse's research team warn: "Markets are no longer to tolerate the foot dragging that European Union (EU) leaders have demonstrated over the last year. Action is needed now (to solve the debt crisis) or the monetary union is finished. We seem to have entered the last days of the euro as we currently know it. The fate of the euro is about to be decided. In the short run, the (debt) problem cannot be fixed by the European Central Bank (ECB), or by new governments in Greece, Italy or Spain: it's about markets needing credible signals on the shape of fiscal and political union long before final treaty changes can take place. We suspect this spells the death of "muddle-through" as market pressures effectively force France and Germany to strike a momentous deal on fiscal union much sooner than currently seems possible, or (sooner) than either would like. Then and only then, do we think the ECB will agree to provide the bridge financing needed to prevent a systemic collapse." Quod Erat Demonstratum!

- In a joint statement, the Congressional Super Committee Chairpersons, Senator Patty Murray (D-Wa.) and Representative Jeb Hensarling (R-TX.) announce their "deep disappointment that we have been unable to come to a bipartisan deficit reduction agreement. After months of hard work and intense deliberations, we have come to the conclusion today that it will not be possible to make any bipartisan agreement available to the public before the Committee's deadline (of November 23rd.). Despite our inability to bridge the Committee's significant differences, we end this process united in our belief that the nation's fiscal crisis must be addressed and that we cannot leave it for the next generation to solve. We remain hopeful that Congress can build on this Committee's work and can find a way to tackle this issue in a manner that works for the American people and our economy." From the White House Press Briefing Room, U.S. President Barack Obama was swift to respond: "There will be no easy off ramps on this one. I vow to veto any attempt to undo a resultant round of across-the-board spending cuts set for introduction in January 2013."

- Front Page Headline, Daily Telegraph U.K. – "German Euro Zone Woes Rock Markets. The Bundesbank sharply lowers Germany's gross domestic product (GDP) forecast for 2012 to 0.5%, savagely depleting confidence in Berlin's ability to solve the rapidly intensifying euro zone debt crisis. Investors were shocked by the rapid downward revision of the Bundesbank's GDP prediction: five months ago, the central bank forecast economic growth of 1.8% in 2012. In its monthly bulletin, the Bundesbank warned that Europe's powerhouse economy could suffer "pronounced weakness" if the euro zone debt crisis continued.

- Front Page Headline, Financial Times – "China Fear of Lasting Global Recession. China's Vice Premier and head of finance, Wang Qishan, predicts that the global economy will slip into a long-term recession and warned that China will need to deepen its financial reforms to cope with the fallout: "Now the global economic situation is extremely serious and in a time of uncertainty, the only thing we can be certain of is that the world economic recession caused by the International crisis will last a long time."

TUESDAY, NOVEMBER 22ND

- Front Page Headline, Bloomberg News – "U.S. Economic Conditions 'Terrifying' – Pimco. In a Bloomberg Television interview, Pacific Investment Management's Chief Executive Officer Mohamed El-Erian warns: "U.S. economic conditions are terrifying because the odds of America returning to recession are in the range of 33% to 50%. I am worried that America has less economic momentum and virtually no policy momentum at this point. The U.S. economy remains fragile due to a high unemployment rate and a weak housing market; but it is also vulnerable to a worsening European debt crisis which could push it into stall speed. America has a political problem. We need our politicians to come together and assert some bipartisan leadership."

- The Office for National Statistics reports Britain's budget deficit declined to 6.5 billion pounds ($10.2 billion U.S.) in October – compared to 7.7 billion pounds in the same period a year ago – as the Chancellor of the Exchequer George Osborne dramatically reduced spending throughout government departments

- According to preliminary results from its monthly sentiment survey, the European Commission reports its headline measure of consumer confidence declined to a reading of minus 20.4 in November from a level of minus 19.9 in October, reaching its lowest level since August 2009 and well below its average of minus 12.5 dating back to 1990. Howard Archer, an economist at IHS Global Insight commented: "The further drop in consumer confidence in November fuels concern that the euro zone is in serious danger of seeing economic contraction in the 4th. quarter and falling back into recession."

- The International Monetary Fund (IMF) announces a set of measures designed to "bolster the flexibility and scope" of its emergency programs to aid nations which face liquidity problems. "The IMF has approved revisions to assist crisis-bystanders with relatively strong policies and fundamentals – but (adversely) affected by the debt crisis in the euro zone – with a goal to break the chains of contagion." In a statement, IMF Managing Director Christine Lagarde continued: "The IMF has been asked to enhance its lending toolkit to help the membership cope with crises. The reform enhances the Fund's ability to provide financing for crisis prevention and resolution. This is another step toward creating an effective global financial safety net to deal with increased global interconnectedness."

- The Commerce Department reports a revision its calculation of U.S. gross domestic product (GDP) to a 2.00% annual growth rate in the 3rd. quarter from its initial estimate of 2.5%, citing lower business investment and a greater decline in corporate inventories

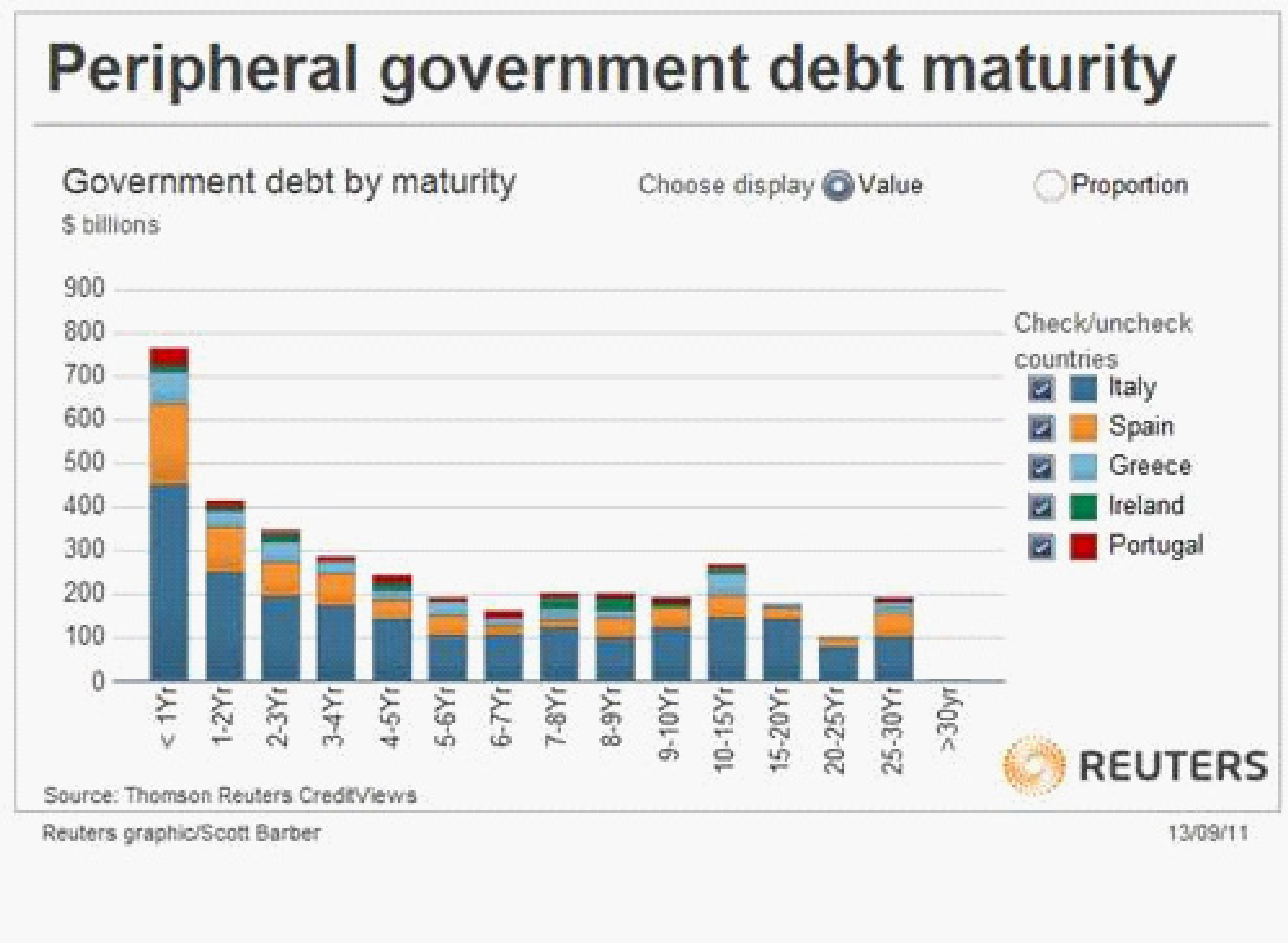
- Statistics Canada reports the nation's retail sales rose by 1% to $38.2 billion (CAD) in September, citing higher sales of automobiles and gasoline

- Front Page Headline, Bloomberg News – "Spain's Short-Term Borrowing Costs Exceed Greece. Spain's short-term borrowing costs double as it issues 3-month treasury bills at an average yield of 5.11%, more than twice the yield of the previous auction a month ago, exceeding the 4.63% yield for Greek 13-week bills issued on November 15th. Maria Dolores de Cospedal, the deputy leader of Spain's Peoples Party, calls for a Euro region accord to: "save and guaranty the solvency of Spain's 650 billion euro ($881 billion U.S.) debt. Spain can't afford to continue financing itself at 7.00%," in reference to the yield on Spain's 10-year bonds.

- Front Page Headline, U.K. Daily Telegraph – "Contagion Spreads as Hungary Goes to the IMF. Hungary has approached the International Monetary Fund (IMF) – after expelling its inspectors last year – becoming the first country in Eastern Europe to succumb to contagion from euro zone debt stress. Rising bond yields and a weakening florint has forced the country's Fidesz government to swallow its pride and request a 'precautionary' credit – reportedly of 4 billion euros – from both the IMF and the European Union (EU). The growing likelihood that Hungary's sovereign debt credit rating will be downgraded has accelerated capital flight, causing 2-year bond yields to soar by 200 basis points – from 5.5% to 7.5% – since September."

WEDNESDAY, NOVEMBER 23RD

- HSBC reports its preliminary Chinese manufacturing survey fell to a 32-month low in November, as the Purchasing Managers' Index declined to a reading of 48, following a level of 51 in October.



- Front Page Headline, Market Watch News – "EU Debt Crisis Now at German Doorstep. A 6 billion euro ($8.1 billion U.S.) auction of German 10-year bunds attracts only 3.644 billion of bids at an average yield of 1.98%, leaving the Bundesbank – the German central bank – to purchase the balance of 2.356 billion euros, or 39% of the issue. The poor auction results underscore investor fears that Europe's lengthy debt crisis now threatens the core of the euro zone. Nick Stamenkovic, a fixed income economist at RIA Capital in Edinburgh, commented: "The auction was awful. It just shows that investors are, not only shying away from (peripheral) euro zone bonds, but are also turning away from the euro zone in general."

- The Commerce Department reports U.S. consumer spending rose by a meager 0.1% in October, following a 0.7% gain in September. Separately, U.S. durable goods orders – for equipment intended to last for at least three years – declined by 0.7% in October, following a 1.5% drop in September. Paradoxically, the Thomson Reuters / University of Michigan final index of consumer sentiment rose to a reading of 64.1 in November – the highest level in five months – from a level of 60.9 in October.

- Front Page Headline, Bloomberg News – "Greece Faces Last Opportunity to Remain in EU – Central Bank. In his interim monetary policy report, Bank of Greece Governor George Provopoulos warns: "We must step up the (economic) pace, not only to reach our goals, but also, to make up for lost ground. What is at stake (here) is very great: it is Greece remaining a member of the European Union and I think that for most Greeks there is no dilemma here. We must succeed."

- Front Page Headline, Bloomberg News – "Fed Seeks Stress Tests for U.S. Banks. The Federal Reserve directs the 31-largest U.S. banks to test their loan portfolios against a deep recession to ensure they have enough capital to withstand losses. Banks with large trading operations will also test against a European market shock, The most severe scenarios outlined by the Fed include an unemployment rate of 13%, an 8% drop in gross domestic product and a 52% decline in stock prices, from the third quarter of 2011 to the fourth quarter of 2012.

- Front Page Headline, Financial Times – "Judge Dismisses Harrisburg Bankruptcy Filing. Judge Mary France rules that a group of Harrisburg city council members lacked the appropriate authority when they filed a bankruptcy petition last month for the capital of Pennsylvania. The ruling paves the way for the State to take over Harrisburg's finances with the planned appointment of a receiver to oversee efforts to return Harrisburg to financial health."

- The Labor Department reports U.S. initial jobless claims for state unemployment benefits increased by 2,000 to 393,000 in the week ended November 19th.

- Front Page Headline, Globe and Mail – "Germany, EU at Odds over Eurobonds. Germany and the European Union's executive arm clash publically on the possibility of issuing common Eurobonds, uniting the 17 EU nations. While German Chancellor Angela Merkel railed against the proposal from the European Commission (EC) in Brussels, EC President Jose Manuel Barroso argued: "Eurobonds could bring tremendous benefits" by blending the risk and security of the common currency zone into one pool. Chancellor Merkel argued: "It is a pretense to suggest that a collectivization of the (EU) debt would allow us to overcome the currency union's structural flaws."

- Front Page Headline, Wall Street Journal - "Nokia Siemens Announces 17,000 Job Layoffs. Network-equipment vendor Nokia Siemens will cut 17,000 jobs – 23% of its global work force – in a restructuring effort to reach profitability and position itself for independence. Chief Executive Officer Rajeev Suri elaborated: "While we plan to reduce our work force significantly, we will not make simple across-the-board reductions. We will focus on what we do best. The restructuring will save the company one billion euros ($1.35 billion U.S.) in annual costs by 2013."

- Front Page Headline, New York Times – "Moody's Warns U.S. Against Reducing Deficit Cuts. Moody's Investors Service warns that its 'AAA' sovereign debt credit rating for the United States could be in jeopardy if lawmakers backtrack on $1.2 trillion (U.S.) in automatic deficit cuts to take effect commencing in 2013. In a statement, Moody's asserted: 'While a change in the composition of the spending cuts would not constitute a major rating consideration, a reduction in the total amount which would raise the projected increase in the federal deficit over the coming decade, could have negative rating implications.' Steven Hess, Moody's lead analyst for the U.S. in New York added: "The Super Committee's failure was not a surprise, but the critical factor for Moody's remains the total amount of deficit cuts."

- Front Page Headline, U.K. Daily Telegraph – "Doubts surface over the the future of Thomas Cook after the tour operator's share price declined by 75%, following an admission that it was close to breaching banking covenants. The future of the travel giant remained uncertain after a panicky day of trading witnessed 270 million pounds chopped off the value of the 170 year-old company.

THURSDAY, NOVEMBER 24TH

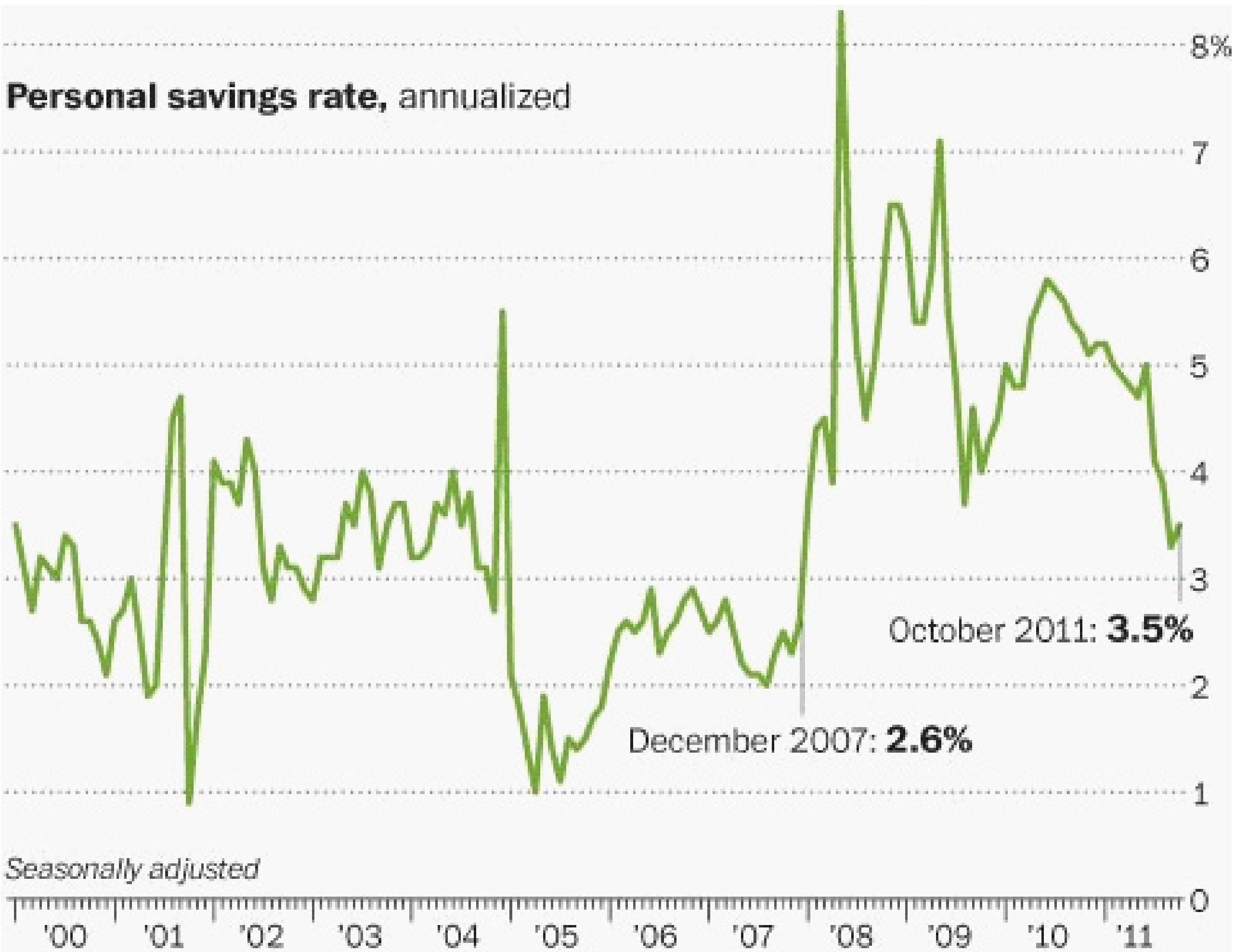
Thanksgiving Day Holiday in the United States

- In its second estimate of economic output, the Office for National Statistics reports U.K. gross domestic product (GDP) grew by 0.5% in the 3rd. quarter and on a year-over-year basis, citing stronger inventory building and increased government spending

- Front Page Headline, Washington Post – "Higher prices, Stagnant Wages Erode U.S. Savings Rate. The Bureau of Economic Analysis (BEA) reports the U.S. national savings rate stood at 3.5% in October, a slight improvement from September, but significantly lower than the 5% rate prevalent for nearly two years. Economists blame higher gasoline and commodity prices for the decline in the savings rate to its lowest point since 2007. Paul Dales, senior U.S. economist for Capital Economics mused: "It might be that a lot of households don't have a choice."

- Fitch Ratings downgrades Portugal's sovereign debt credit rating to 'BB' (High) from 'BBB' (Low) with a negative outlook, citing: "The country's large fiscal imbalances, high indebtedness across all sectors and adverse macroeconomic outlook mean the sovereign's credit profile is no longer consistent with an investment-grade rating." Separately, London-based Barclay's Capital announced it will remove Portugal's government bonds from its Euro Treasury Index, since the downgrade renders them "ineligible for inclusion."

- The Munich-based Ifo Institute's business climate index – based upon a survey of 7,000 executives – rose slightly to a reading of 106.6 in November from a level of 106.4 in October



- Front Page Headline, Bloomberg News – "Japan May Be Close to a Downgrade – S&P. In an interview, Takahira Ogawa, director of sovereign ratings at Standard and Poors in Singapore warns: "Japan's finances are worsening every day, every second. It may be right in saying that we are closer to a (sovereign debt) rating (now 'AA' Low) downgrade … It's unrealistic for Japan to think it can escape the debt woes that have engulfed nations overseas, unless it can control its finances." Separately, in a new study the International Monetary Fund (IMF) reports: "There's a risk of a sudden spike in Japanese bond yields that could make the debt level unsustainable."

- In a new study, Statistics Canada reports the nation's weekly payroll earnings declined by 0.3% to $872.75 in September. On a year-over-year basis, earnings increased by 1.1%, the slowest pace since November 2009.

- Front Page Headline, Globe and Mail – "France, Germany, Italy Vow to Stabilize Euro Zone. French President Nicolas Sarkozy agrees to a German initiative to change EU treaties to improve the governance of the troubled euro zone. After meeting with German Chancellor Angela Merkel and Italian Prime Minister Mario Monti, President Sarkozy announced: "Proposals for the modification of European Union treaties will be presented by the next EU summit on December 9th." All three leaders vowed they would do whatever it takes to stabilize the debt situation and save the euro. Chancellor Merkel added: "We want a strong, stable euro zone … we will do everything to defend it."

- Front Page Headline, Globe and Mail – "U.S. Governments Turn Their Backs on the Poor. In a new study, The Center on Budget and Policy Priorities – a think tank that studies the impact of government decisions on moderate and low income families – reports: "Cash assistance payment to the nation's most needy families with children, failed to keep pace with inflation in 2011 and are presently at least 20% below their inflation-adjusted 1996 levels. The payments are distributed through the U.S. Temporary Assistance for Needy Families program (TANF), created as part of U.S. welfare reform in 1996. The program's effectiveness … has worsened during the recent economic downturn because of the combination of increased need and large state budget shortfalls. Most states froze benefit levels in 2011, but six states and the District of Columbia reduced them … TANF benefit levels are now so low that they are not sufficient in any state to raise a family's income above 50% of the poverty line. A majority of 29 states have benefit levels at 30% of the poverty line or less."

FRIDAY, NOVEMBER 25TH

- The U.K. Daily Telegraph, Op-Ed by Jeremy Warner – "Death of a Currency as Eurogeddon Approaches. It's time to think what hitherto markets have regarded as unthinkable: that the euro is really on its last legs. The defining moment was over Wednesday's bund auction, reinforced yesterday by the spectacle of German sovereign bond yields rising above those of the U.K. If you are tempted to think that this is another vote of confidence by international investors in the U.K. – don't! Neither has it anything to do with us, nor in truth, does it have much to do with the idea that Germany will eventually be saddled with liability for periphery nation debts, thereby, undermining its own creditworthiness. What this is about is the markets beginning to bet on what was previously a minority view, i.e. a complete collapse or dissolution of the euro. Until recent days, it has remained possible to accept the prospect that Germany would ultimately, bow to pressure and do whatever might be necessary to save the single currency. The prevailing view was that German Chancellor Merkel didn't really mean what she was saying, or was only saying it to placate the German electorate. Finally, when she came to peer over the precipice, she would retreat from her hardline position and compromise. Self-interest alone would force Germany to act.
However, there comes a point in every crisis where the consensus shatters. That's what has occurred and with good reason. In recent days, it has become as plain as day that the lady's not for turning. This has caused any remaining international confidence in the euro to evaporate and even German bunds to lose their 'risk-free' status. The debt crisis is no longer confined to the sinners in the south. Suddenly, no one wants to hold euro-denominated assets of variety. Investors have gone on strike. The Americans are withdrawing their money as fast as they decently are able. Meanwhile, British banks have curtailed lending to all but their safest euro zone counterparts; even those who have been denied access to dollar funding. The U.K. hardly has anything about which to be boastful; it's got its own legion of problems, many of them not so dissimilar to the euro zone periphery. However, almost anything is going to look preferable to a currency which might soon be assigned to the dustbin of history. Suddenly, the British pound is the European default asset of choice. What we are witnessing is awesome times – the death throes of a currency – one which was confidently expected to take its place alongside the U.S. dollar as one of the world's major reserve currencies. Today, that promise looks to be in ruins."

- Front Page Headline, Market Watch News – "Moody's Downgrades Hungary's Debt to Junk Status. Moody's Investors Service downgrades Hungary's sovereign debt credit rating to 'Ba1' from 'Baa3' with a negative outlook citing, 'rising uncertainty surrounding the country's ability to meet its medium-term targets for fiscal consolidation and public sector debt reduction; as well as increased susceptibility to event risk' given external market volatility. Separately, Nick Chamie, director of emerging markets research at RBC Capital Markets commented: "It is our view that Hungary's unbalanced economic and financial policies, high debt burden and weak financing leave it permanently vulnerable to external shocks."

- Front Page Headline, Globe and Mail – "S&P Downgrades Belgian Debt. Standard and Poor's downgrades Belgium's long-term sovereign debt credit rating to 'AA' from 'AA' (High), citing a looming European recession and "in our opinion, protracted political uncertainty remains a risk to Belgium's creditworthiness. Mr. Yves Leterme's caretaker government lacks a mandate to implement deeper fiscal and structural reforms."

- Finance Canada reports a federal government deficit of $13.2 billion (CAD) for the April to September period of the current fiscal year ending March 31, 2012, compared with a deficit of $17.4 billion (CAD) over the same period a year ago, citing a 7.7% increase in personal income tax revenue and an 8.4% increase in corporate tax revenues

- Front Page Headline, Financial Times – "Italian Bond Yields Exceed 8%. According to Reuters, an issue of 10 billion euros of Italian 2-year bonds was auctioned at an average yield of 7.81% while the yield on 3-year Italian bonds reached a high of 8.13% in today's trading session. Marc Ostwald, a strategist at Monument Securities in London commented: "Bond yields have skyrocketed. It's simply not sustainable in the long run."

CLOSING LEVELS FOR FRIDAY, NOVEMBER 25TH.		WEEKLY CHANGE
Dow Jones Industrial Average	11,231.78	– 564.38 points
Spot Gold Bullion (December)	$1,685.70 (U.S.)	– $39.40 per oz.
S&P / TSX Composite	11,462.06	– 440.38 points
10-Year U.S. Treasury Yield	1.98%	– 3 basis points
Canadian Dollar	95.49 cents (U.S.)	– 1.86 cent
U.S. Dollar Index Future (Spot Price)	79.61 cents	+ 1.587 cent
WTI Crude Oil (December)	$96.77 (U.S.)	– $0.90 per barrel

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