

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



Monday, December 5th

Front Page Headline, Bloomberg News – “S&P Places 15 Euro Nations on Credit Watch. Standard and Poor’s Ratings Services places the long-term sovereign debt credit ratings of 15 members of the European Economic and Monetary Union (euro zone)

MONDAY, DECEMBER 5TH

on CreditWatch with negative implications. ‘S&P’s CreditWatch placements are prompted by our belief that systemic stresses in the euro zone have risen in recent weeks to the extent that they now put downward pressure on the credit standing of the euro zone as a whole. S&P believes that these systemic stresses arise from five interrelated factors:

1. Tightening credit conditions across the euro zone.
2. Markedly higher (yield) risk premiums on a growing number of euro zone sovereign credits
3. Continuing disagreements among European policy makers about how to solve the immediate market confidence crisis and longer term; how to ensure greater economic, financial and fiscal convergence among euro zone members
4. High levels of government and household indebtedness across a large area of the euro zone
5. The increasing risk of an economic recession – in the euro zone as a whole – during 2012. Currently, we expect output to decline next year in countries such as Spain, Portugal and Greece; but we now assign a 40% probability of a decline in output for the euro zone as a whole.”

Long term sovereign ratings on S&P CreditWatch negative are listed:

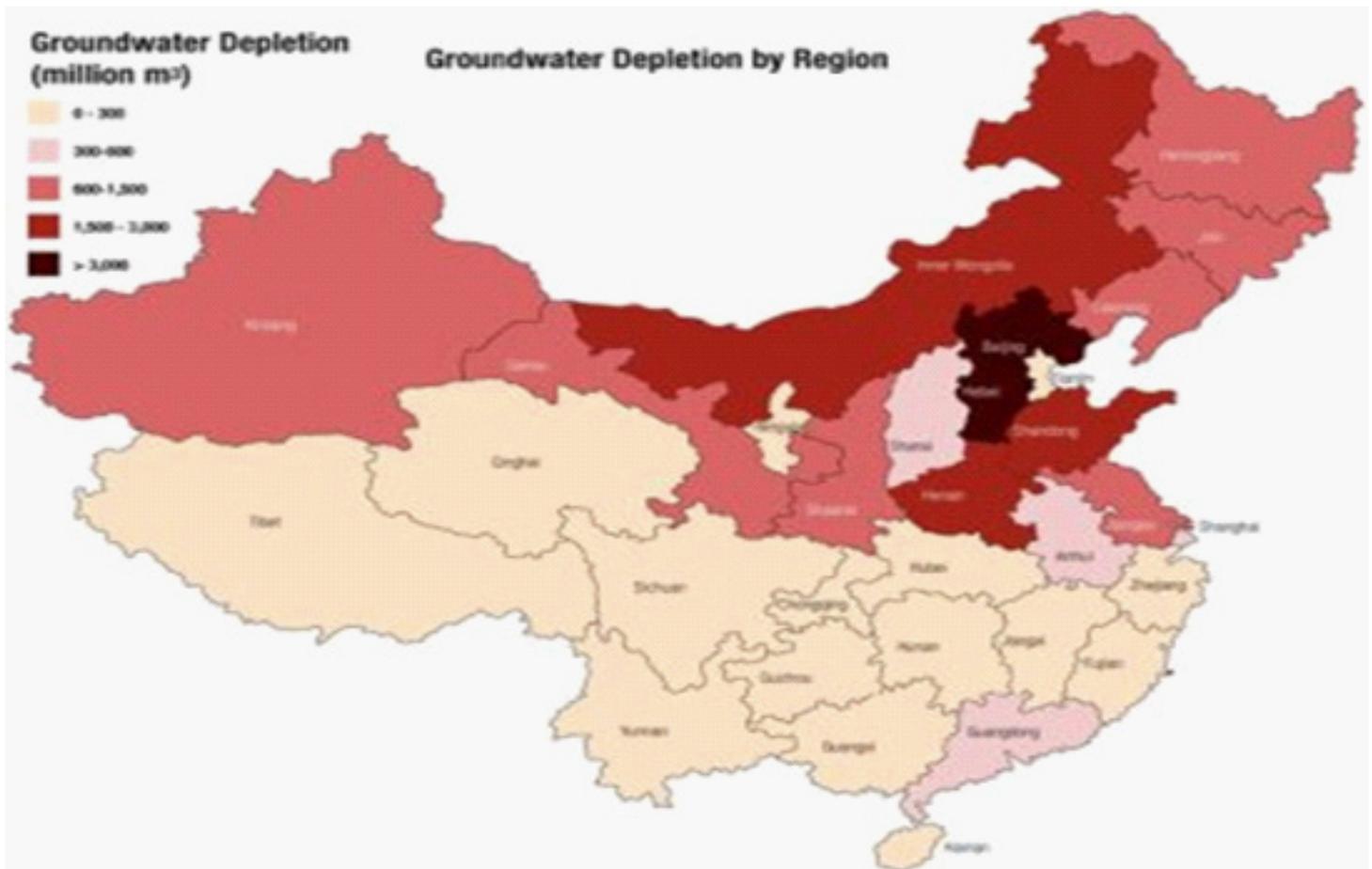
Austria	AAA	Italy	A
Belgium	AA	Malta	A
Finland	AAA	Portugal	BBB (Low)
France	AAA	Slovakia	A (High)
Germany	AAA	Slovenia	AA (Low)
Luxembourg	AAA	Spain	AA (Low)
Netherlands	AAA	Cyprus	BBB
Estonia	AA (Low)	Ireland	BBB (High)

- The Bank of Korea (BOK) reports the gross domestic product (GDP) of South Korea expanded by 0.8% in the 3rd. quarter ended September 30th. and at a pace of 3.5% on a year-over-year basis, citing increased exports of automobiles and metal products. Ma Tiejing, an economist with DBS Bank Ltd. in Singapore commented: “We expect the BOK to maintain a neutral (monetary) policy stance at this week’s meeting, recognizing economic uncertainties, while giving no indication of an imminent administered rate cut.”
- The Institute for Supply Management (ISM) reports its services index declined slightly to a reading of 52.0 in November from a level of 52.9 in October. Cary Leahey, Managing Director at Decision Economics in New York, commented: “This is the first disappointing (economic) indicator we’ve seen in the last couple of weeks. The U.S. economy has improved, but it is still not growing very quickly.” Separately, the Commerce Department reports U.S. factory orders declined by 0.4% in October from a revised drop of 0.1% September, previously reported as a gain of 0.3%.

TUESDAY, DECEMBER 5TH

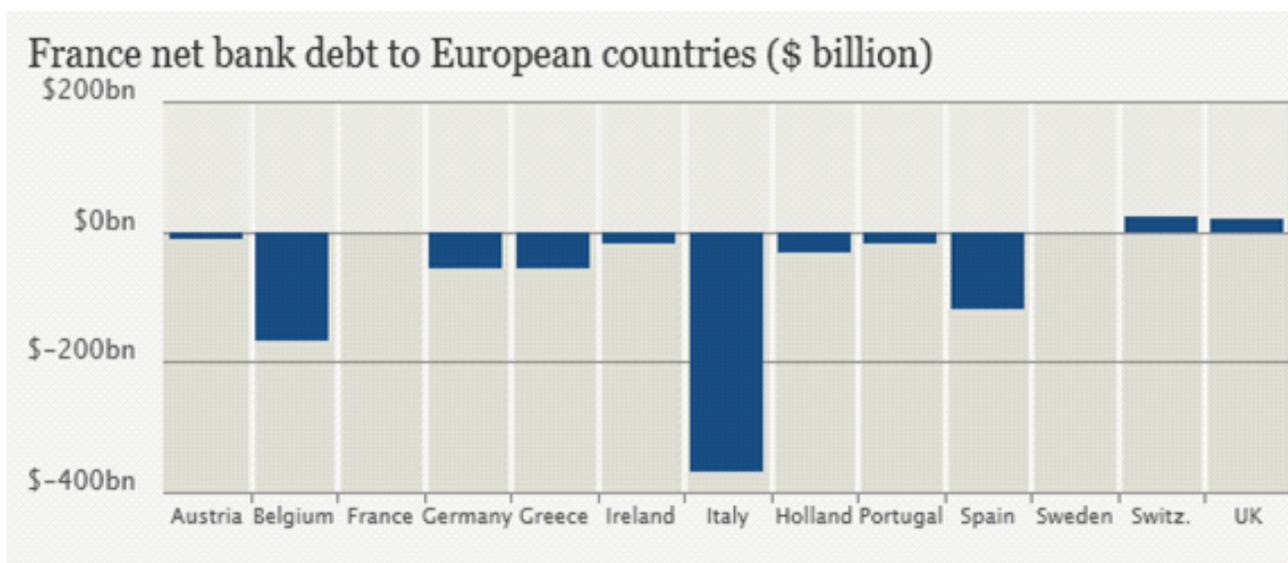
- Front Page Headline, New York Times – “Citigroup to Lay Off 4,500 Employees. Facing stalling economic growth prospects around the globe, Chief Executive Officer Vikram Pandit announces the bank will lay off 4,500 employees in the forthcoming months. The downsizing initiative will reduce the bank’s work force by about 2%, to 262,500 employees. While most of the job cuts will come from Citi’s administration offices and investment banking operations, nearly every sector of Citi’s sprawling businesses will face cuts.”
- The World Bank reports 11 Chinese provinces are in ‘water poverty,’ including Beijing and Shanghai. The World Bank sets the water poverty mark at 1,000 cubic meters per person per year, or roughly 264,000 gallons.

- Statistics Canada reports the value of building permits issued by municipalities across the country rose by 11.9% to \$6.3 billion (CAD) in October, following three consecutive monthly declines; citing the increase arose from the non-residential sector led by Saskatchewan, Ontario, Newfoundland and Labrador
- Front Page Headline, Globe and Mail – “BMO Profit Climbs 21%. The Bank of Montreal posts a profit of \$897 million (CAD) in the 4th. quarter ended October 31st. BMO Chief Executive Officer Bill Downe commented: “With the Marshall & Ilsley Corp. acquisition in the U.S., the BMO is now well positioned as a top-ten North American bank. At the same time, there is no question that the softening (global) economic environment has (negatively) impacted market conditions; as well as consumer and business confidence. Recognizing the potential for a continuing moderate (economic) growth environment, the bank will be focusing on cost controls” ... in the new year.



Source: China Water Risk

- Front Page Headline, Bloomberg News – “RBA Lowers Overnight Cash Rate to 4.25%. The Reserve Bank of Australia lowers its benchmark lending rate by 25 basis points to 4.25% for a second consecutive month. In announcing the move, RBA Governor Glenn Stevens stated: “Financing conditions have become increasingly difficult, especially in Europe. This, together with precautionary behavior by firms and households, means that the likelihood of a further material slowing in global (economic) growth has increased. Short-term interest rates have tended to decline a little further in recent weeks, although term funding conditions for financial institutions have become more difficult. Credit growth remains subdued and asset prices have declined further over recent months.”
- Bank of Canada Governor Mark Carney maintains the Bank Rate unchanged at 1% citing: “Domestic household spending has shown surprising momentum and business investment remains solid. However, conditions in world financial markets have worsened, as Europe’s sovereign debt woes have deepened and the continent is hurtling toward a recession that will be more pronounced than anticipated just weeks ago. The Bank believes the weaker global (economic) outlook will (adversely) affect the Canadian economy through financial confidence and trade channels, exacerbating the effects of a persistently strong Canadian dollar.”
- Front Page Headline, National Post – “Royal Bank, Scotiabank Post Sterling Profit. The Royal Bank of Canada records a net income of \$1.6 billion (CAD) in the 4th. quarter ended October 31st. – up 43% from the same period a year ago – as strong results in retail banking and wealth management more than compensated for a decline in capital markets activity. Chief Executive Officer Gord Nixon remarked: ‘One of our biggest businesses in Europe is wealth management and the competitive position of that business – in some respects – has never been stronger.’ Separately, Scotiabank also reported 4th. quarter results, posting a profit of \$1.2 billion (CAD) – up 11% from a year ago – citing higher revenue from the Dundee Wealth acquisition and a healthy domestic banking performance. With operations across Latin America and Asia, Scotiabank is Canada’s most geographically diversified bank, which has enabled it to benefit from growth in emerging economies.”
- Front Page Headline, U.K. Daily Telegraph – “Bank of France Debts Climb Tenfold on Capital Flight. French lenders lost 100 billion euros in short-term deposits in September alone; mostly due to precautionary moves by U.S. money market funds and Asian investors fearful of France’s exposure to Italy. The effects of the capital flight are surfacing on the Bank of France’s books under the European Central Bank’s ‘Target 2’ facility, an ECB payment network which allows funds to move automatically where needed. France is highly exposed to Italian debt, to the extent of \$365 billion (U.S.).”



- Front Page Headline, Financial Times – “Bank of England Announces Crisis Lending Facility. The Bank of England has laid contingency plans for a deterioration in the euro zone sovereign debt crisis, announcing a new short-term lending facility for times of severe market stress. The new initiatives hope to alleviate investor concerns that borrowers could face a shortage of sterling liquidity if the situation in the euro zone were to deteriorate. Under the measures, the bank will give borrowers access to month-long sterling loans on signs of a market-wide funding shortage. The Bank stressed that there was, at present, no shortage in short-term sterling liquidity, but precautions were warranted ‘in light of the continuing exceptional stresses in financial markets.’”

### WEDNESDAY, DECEMBER 7TH

National Pearl Harbor Remembrance Day in the U.S.

- Front Page Headline, Globe and Mail – “Top German Official Casts Doubt.” At a pre-European Union (EU) summit briefing, a senior German government official – wishing to remain anonymous – evokes a deliberately downbeat assessment of prospects for an EU agreement: I am more pessimistic than last week about reaching an overall agreement ... A lot of protagonists still have not understood how serious the situation is. My pessimism stems from the overall picture that I perceive ... in which institutions and member states must move on many points to make possible the new treaty rules that we are proposing.”
- Front Page Headline, Globe and Mail – “German Bond Auction Successful. Germany auctions 4.09 billion euros (\$5.48 billion U.S.) of 5-year bonds at an average yield of 1.11% with a bid-to-cover ratio of 2.1 times. This auction contrasts with the previous auction of November 23rd when investor demand fell short of the issue’s size.”
- Front Page Headline, Wall Street Journal – “Geithner Confident Europe Will Succeed.” After a meeting with French Finance Minister Francois Baroin, U.S. Treasury Secretary Tim Geithner stated: “We’re encouraged by the progress (Europeans) are making, not only to enact economic reforms across Europe to create the conditions for stronger (economic) growth in the future; but also, to try to build a stronger architecture for a fiscal union ... and try to make sure there’s a sufficiently strong firewall in place to support those efforts. I am confident they will succeed. I have a lot of confidence in what the President Sarkozy and Finance Minister Baroin are doing ... working with Germany trying to build a stronger Europe.”

- Front Page Headline, Wall Street Journal – “Blagojevich Sentenced to 14 Years. A federal judge sentences former Illinois Governor Rod Blagojevich to 14 years in prison, nearly three years after he was arrested and charged with a wide-ranging corruption spree, which included trying to auction off U.S. President Obama’s former Senate seat. Mr. Blagojevich, a onetime rising star in the Democratic Party, was convicted on 18 counts of corruption.”
- The German Economics Ministry reports the nation’s factory production rose by 0.8% in October, following a decline of 2.8% in September. Within the manufacturing sector, production of capital goods rose by a “considerable” 2.2% in the month, after falling by 4.5% in September. Annalisa Piazza, an economist at Newedge Economics in London commented: “German companies continue to expand their investments despite the cyclical (economic) slowdown.”
- Front Page Headline, U.K. Telegraph – “S&P Places EU on CreditWatch Negative. Further to its action of earlier this week, Standard and Poor’s places the debt issued by the European Union itself on CreditWatch negative (outlook) warning: ‘Given the EU’s dependency on revenues from national budgets and our recent CreditWatch placements on the ‘AAA’ ratings of Germany and France – among others – we will concurrently review the ‘AAA’ long-term rating on the EU with the ratings on the euro zone member states.’ S&P also issued a CreditWatch warning on several European banks, plus the European Financial Stability Fund (EFSF). Separately, Germany and France announce a proposal for a Financial Transaction Tax (FTT) to be included in the new EU treaty which Chancellor Merkel and President Sarkozy want leaders to ratify. This initiative could amount to a tacit ejection of Britain from the euro zone rescue efforts, since Prime Minister Cameron has vowed to veto any treaty threatening the U.K.’s financial services industry.”



Source: AFP Photo / Eric Feferberg



Source: European Pressphoto Agency

#### THURSDAY, DECEMBER 8TH

- Front Page Headline, Market Watch News – “ECB Cuts Key Lending Rate to 1%. The European Central Bank lowers its benchmark lending rate by 25 basis points to 1%, while simultaneously, ECB Governor Mario Draghi rules out additional sovereign bond purchases (quantitative easing): “The method by which money is being channeled to European countries, should not obscure the fact that the EU treaty does not permit financing to governments ... The spirit of the EU treaty is always on our minds.”
- Front Page Headline, Market Watch News – “Jon Corzine Is at a Loss. Testifying before the House Agriculture Committee, former chief executive officer of MF Global Jon Corzine apologizes to customers of the firm and informs lawmakers: ‘I simply neither know where the \$1.2 billion (U.S.) of missing money is, nor, why the accounts have not been reconciled. When informed by the trustee that MF Global couldn’t account for the money, I was stunned. I never intended to break any rules, whether it dealt with segregation rules, or any other rules. Given the number of transactions, I’m not in a position to know anything about the movement of any specific funds.’ Given Mr. Corzine’s credentials as a former executive of Goldman Sachs and former Governor of New Jersey, his leadership skills and business acumen seem to be sorely lacking.
- The Labor Department reports U.S. claims for state unemployment benefits declined by 23,000 to 381,000 in the week ended December 3rd.
- Front Page Headline, National Post – “Huge Financial Upside to New Border Agreement. Canada will gain considerably from a new border agreement with the United States including:

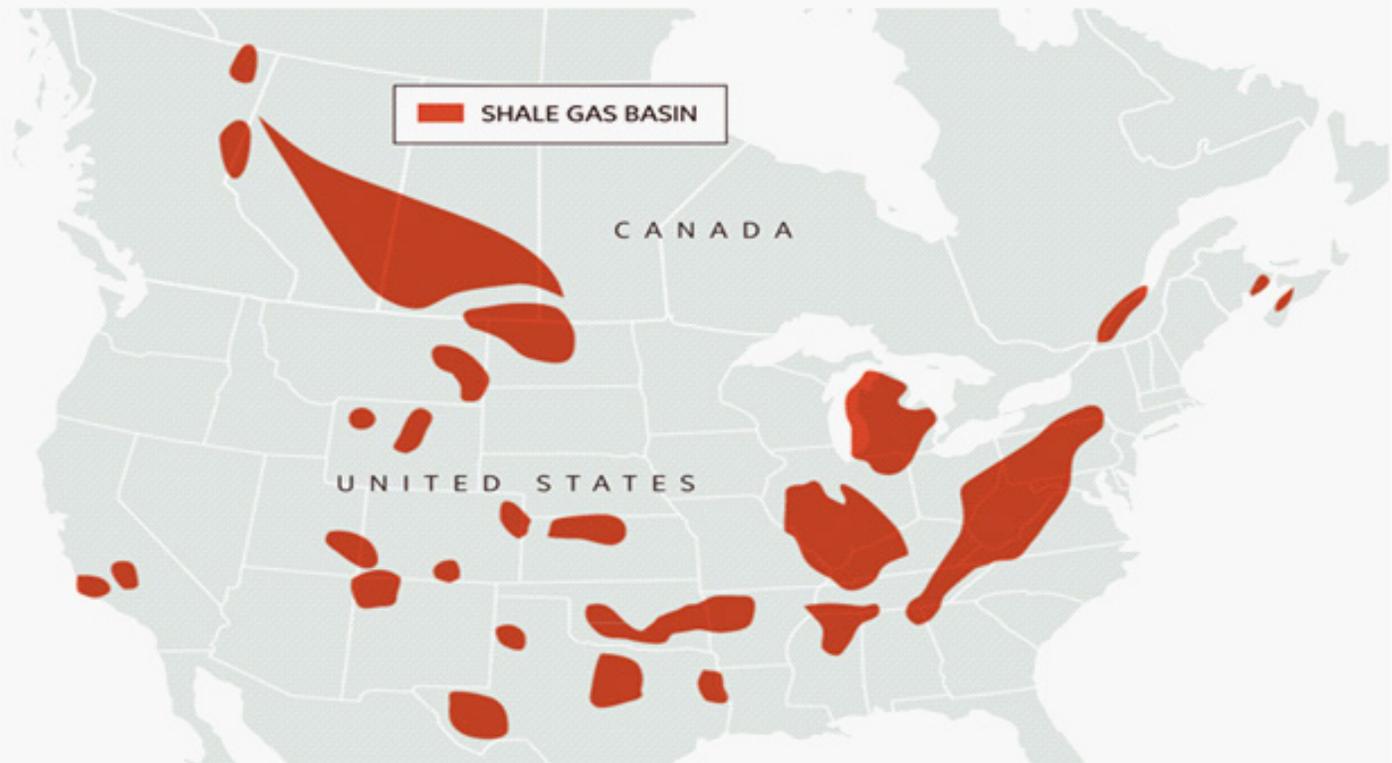
1. Business programs such as NEXUS and the Free and Secure Trade (FAST) card will be expanded and their benefits increased.
2. Imported goods from abroad will be inspected at the port of entry, rather than at the border.
3. Both governments will adopt a system of “screened once, accepted twice” for incoming air and marine cargo.
4. Businesses looking to import goods will be able to file paperwork electronically through a single window website, rather than having to file with individual government departments
5. The two countries will improve protection for cross-border critical infrastructure, such as transportation systems, pipelines and electricity grids.
6. The Canadian federal government remains committed to construct a second bridge at the Detroit River International Crossing, the busiest border crossing between the two countries.

- Front Page Headline, U.K. Daily Telegraph – “Euro Summit Rocked by Row Over Veto Plan. Hours before European Union (EU) leaders arrived in Brussels, the Finnish parliament ruled that EU treaty changes proposed for the European Stability Mechanism (ESM) were ‘unconstitutional.’ Finland’s grand committee ruled that decisions made by the ESM – the euro zone’s permanent bailout fund to be established in 2012 – must remain unanimous and not changed to the ‘quantified majority’ that French President Nicolas Sarkozy and German Chancellor Angela Merkel have agreed upon. The Finns are supported by the Netherlands, which fears proposals to withdraw veto powers from the ESM is an erosion of democracy and would make it vulnerable to funding bailouts without recourse. Meanwhile, the Irish want to block plans for the ‘convergence and harmonization’ of the euro zone’s ‘corporate tax base.’ The summit was further put at risk with the news that after failing stress tests, European banks must raise 115 billion euros of new capital in order to satisfy regulators.”

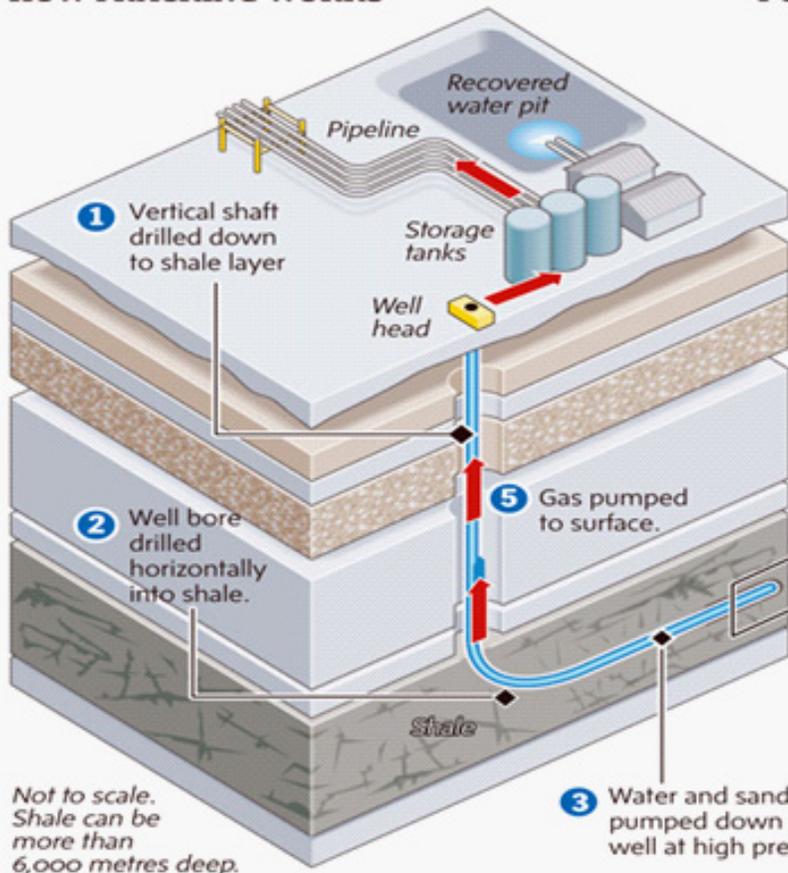


Source: Wall Street Journal

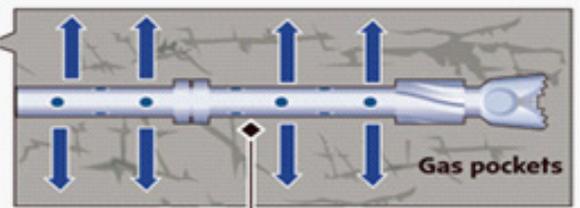
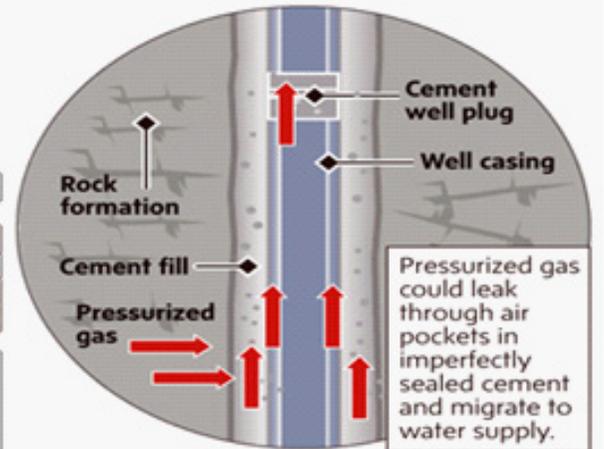
### MAJOR NORTH AMERICAN SHALE GAS DEPOSITS



### HOW FRACKING WORKS



### POTENTIAL PROBLEM: LEAKING WELLS



4 **Fracking:** Water pressure fractures shale. Sand keeps fractures open as gas expands into well bore.

## FRIDAY, DECEMBER 9TH

- Front Page Headline, Market Watch News – “Croatia Signs EU Accession Treaty. The Balkan nation of Croatia is set to become the 28th. member state of the European Union in a watershed decision for the former Yugoslav republic
- The Thomson Reuters/University of Michigan preliminary index of consumer sentiment rose to a reading of 67.7 in December from a final November reading of 64.1
- The Customs Bureau reports China’s exports rose by 13.8% in November on a year-over-year basis – the weakest export growth since December 2009 – as the nation’s trade surplus narrowed to \$14.5 billion (U.S.) from \$17 billion (U.S.) in October. Separately, the Statistics Bureau reports China’s inflation rate declined to an annual level of 4.2% in November, while industrial production rose by 12.4%. Koji Toda, a fund manager with Resona Bank Ltd. in Tokyo commented: “Curbing inflation is a good thing, but the reason why (China’s) inflation is lower is because the global economy is slowing. If you see that fact, you can’t be so optimistic.”
- The Commerce Department reports the U.S. trade deficit narrowed by 1.6% to \$43.5 billion (U.S.) in October from \$44.2 billion (U.S.) in September – the lowest level of the year – citing higher imports of computers, aircraft and consumer goods; as well as record exports to China, South America and Central America.
- Front Page Headline, Globe and Mail – “European Union’s Vicious-Circle Economics Dooms It to Failure. The two-day euro zone summit ends with at least 23 of the 27 countries – soon to be 28 with the addition of Croatia – agreeing to a new long-term fiscal pact, designed to ensure that the euro never again gets hit with an existential crisis. (Objecting to the introduction of a Financial Transfer Tax, Great Britain refused to sign the new agreement). In addition, the EU will lend about 200 billion euros (\$272 billion U.S.) to the International Monetary Fund, in order to boost its bailout capabilities. The European Stability Mechanism (ESM) – the permanent bailout fund – is to be launched in the summer of 2012 (a year earlier than planned) with an increased lending capacity. Globe reporter Eric Reguly opines: (Instead of focusing on austerity measures and penalties) ‘the Brussels summit agenda should have focused on short-term and medium-term economic growth plans. That’s why the (sovereign debt) crisis will endure ... certainly to the point where Europe faces years of zombie economic performance. Indeed, the destruction of the (euro) common currency should not be dismissed.”
- Statistics Canada reports the nation posted a trade deficit of \$885 million (CAD) in October – following a 4.2% gain in September – citing a 3% decline in exports. Douglas Porter, deputy chief economist with BMO Capital Markets, commented: “Overall, there’s not much to debate here: trade will drag heavily on gross domestic product (GDP) growth in the fourth quarter, after adding a massive gain in the third quarter.”
- Front Page Headline, Globe and Mail – “Fracking Opponents Cite Wyoming Tainted Water Report. The U.S. Environmental Protection Agency (EPA) cites tainted ground water linked to gas drilling in Pavillion, Wyoming; lending credence to the worst fears of people living near drilling operations. For years, leading industry executives from companies such as Exxon Mobil, have insisted there is no evidence that the method used – hydraulic fracturing, or fracking – has ever polluted groundwater. The EPA may now have the evidence needed to dispute that claim, but did state that its findings are preliminary and that the apparent tainting of well water may be the result of local conditions and poor drilling practices that are not necessarily duplicated elsewhere.
- Felix Salmon writing on his Reuters blog calls it “Europe’s Disastrous Summit”

“I thought disasters were all meant to happen over the weekend? Somehow in Brussels, EU leaders have continued to pull defeat out of the jaws of victory on Thursday night, leaving Friday for finger-pointing and recriminations and wondering whether anybody who signed onto this deal has any chance of getting re-elected, let alone being remembered as one of the leaders who saved the euro.”

“Here’s how the FT (Financial Times) put it on Wednesday (December 7thm 2011): “It borders on hysterical to say that there are but hours to save the euro, but there is a risk that if the crisis is not now tamed the price of rescue might start to spiral out of politicians’ grasp. The stakes are therefore very high at Friday’s summit. The world cannot afford another half-baked solution.”

“And yet, inevitably, another half-baked solution is exactly what we got. Which means, I fear, that it is now, officially, too late to save the Eurozone: the collapse of the entire edifice is now not a matter of if but rather of when.”

Writing in the Telegraph on Friday 9th, December 2011 Ambrose Evans-Pritchard highlights his work-“Europe’s Blithering Idiots and their Flim-Flam Treaty.”

“The leaders of France and Germany have more or less bulldozed Britain out of the European Union for the sake of a treaty that offers absolutely no solution to the crisis at hand, or indeed any future crisis. It is EU institutional chair shuffling at its worst, with venom for good measure.”

The Treaty, “tarts up the old Stability Pact without changing the substance (although there will be prior vetting of budgets).”

“There is no shared debt issuance, no fiscal transfers, no move to an EU Treasury, no banking license for the ESM rescue fund, and no change in the mandate of the European Central Bank.”

Looking for a scapegoat, Germany and France have decided that The City of London is the culprit. “Given that Merkozy cannot bring themselves to accept that Europe’s debacle stems from the euro itself, from a 30pc currency misalignment between the North and South, and from an over-leveraged Euro 23 trillion banking bubble that German, French, Dutch, Belgian regulators allowed to happen....given that, yes, I suppose they have to find a scapegoat.”



Merkozy has bulldozed Britain out of the EU. Daily Telegraph and Photo AFP.

**CLOSING LEVELS FOR FRIDAY DECEMBER 9TH.**

**WEEKLY CHANGE**

Dow Jones Industrial Average	12,184.26	+ 164.84 points
Spot Gold Bullion (January)	\$1,716.80 (U.S.)	– \$34.50 per oz.
S&P / TSX Composite	12,034.75	– 40.34 points
10-Year U.S. Treasury Yield	2.06%	+ 3 basis points
Canadian Dollar	98.19 (U.S.)	– 0.01 cent
U.S. Dollar Index Future (Spot Price)	78.593 cents	– 0.09 cent

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