Monday December 12th, 2011

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, December 12th

The Paris-based Organization for Economic Cooperation and Development (OECD) reports its leading economic indicator declined slightly to a reading of 100.1 in October from a level of 100.4 in September, citing: "In the United Kingdom and the euro zone as

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a whole, the indicators continue to point strongly to economic activity falling below the long-term trend." In addition, the OECD reports that the total borrowings of industrialized governments have surged beyond $10 trillion (U.S.) this year and are forecast to grow further in 2012. In its latest borrowing outlook – due to be published this month – the OECD warns: "Financial stresses are likely to continue with the unpredictable nature of the (fixed income) markets posing a threat to the stability of many governments which need to refinance (maturing) debt."

- At a business conference in Tel Aviv, Standard and Poor's Chief Economist Jean-Michel Six warns: "Last week's European Union Summit was a significant step forward, but there is probably yet another shock required before everybody in the euro zone reads from the same page; such as a major German bank experiencing some real difficulties in the markets, which is a genuine possibility over the near term. Indeed, there would then be a recognition that everybody is in the same boat and that even German institutions can be affected by this (debt) contagion. I'm afraid this may still be required."

- Front Page Headline, New York Times – "Moody's Warns of Sovereign Downgrades in Euro Zone. Moody's Investors Service announces it 'could downgrade the sovereign debt ratings of some European Union countries in the coming months, citing the crisis remains at a critical and volatile stage." Gary Jenkins, a strategist at Evolution Securities in London commented: "High levels of debt, the rising risk of a recession and tightening credit conditions are all still with us after the Summit and there was little in the way of action to deal with any of them."

TUESDAY, DECEMBER 13TH

- The Commerce Department reports U.S. retail sales rose by a seasonally adjusted 0.2% in November – the slowest rate in 5 months – citing, higher consumer purchases of automobiles and home electronics, but reduced spending for entertainment, restaurant meals and groceries

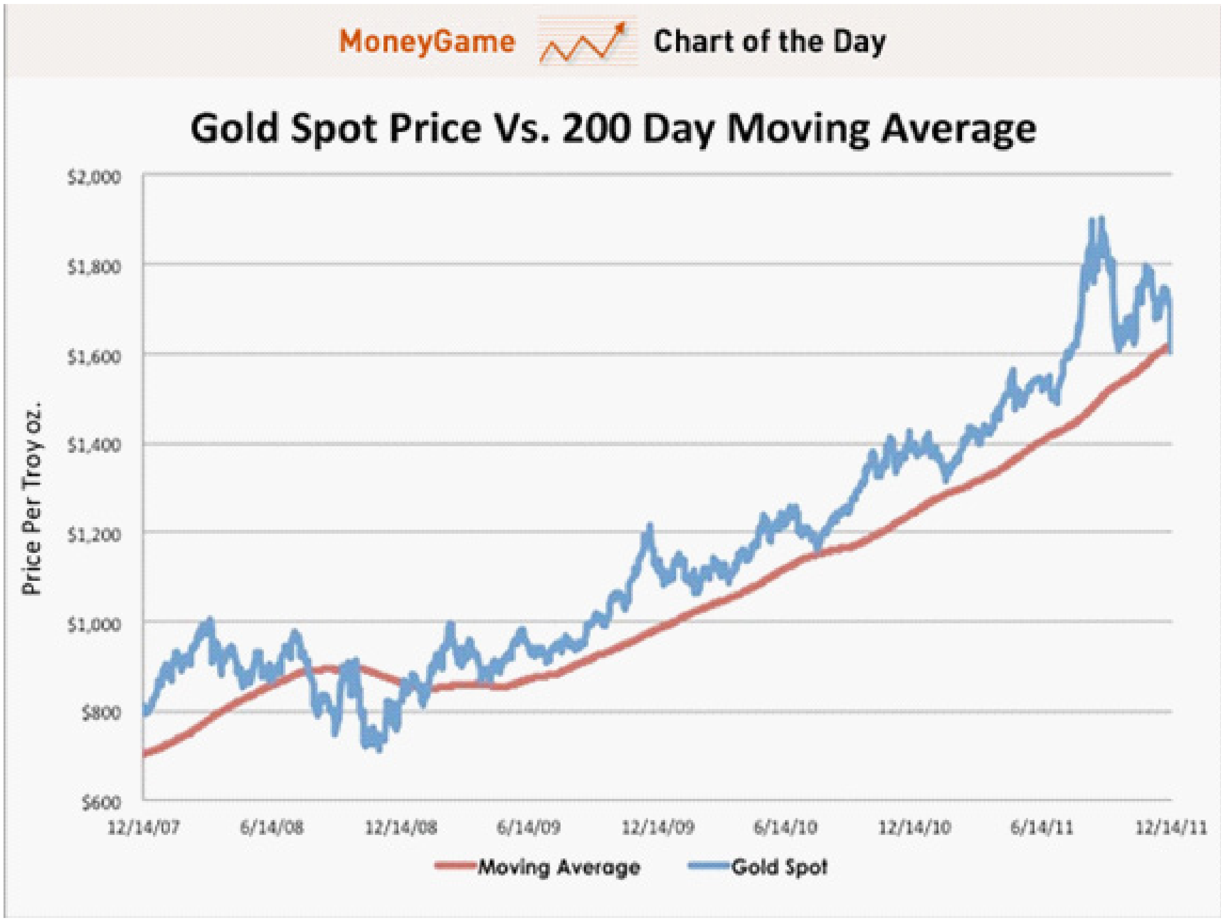
- Following its last regularly scheduled meeting in 2011, the U.S. Federal Reserve Open Market Committee (FOMC) refrained from announcing any new initiative in monetary policy, whilst leaving the Federal Funds rate at his historic low range of 0% - 0.25% and pledging to maintain that range until mid-2013

- The Mannheim-based ZEW Center for European Economic Research reports its index of investor and analyst expectations – focusing on economic developments 6 months ahead - rose to a level of minus 53.8 in December from a 3-year low of minus 55.2 in November.

- Front Page Headline, Financial Times – "EU Treaty Hopes Come Under Strain. Franco-German hopes for a sweeping new treaty to bind the region's economies more closely come under strain as several European Union leaders warn of difficulties pushing a far-reaching pact through their national parliaments. The pressure was particularly acute in the non-euro zone countries, where at least four governments warned that the precise legal text would determine whether they could sign the treaty, or otherwise join the United Kingdom on the sidelines. Officials in several of those countries stated their most pressing concern was whether the new rules giving Brussels the power to police national budgets would be binding only to euro zone governments, or to all signatories.

- Front Page Headline, Globe and Mail – "Ottawa's Pension Liabilities Understated by $80 Billion (CAD). A new study by the C.D. Howe Institute concludes the Canadian Federal Government's liability for pension funds now totals $227 billion (CAD), which is $80 billion (CAD) more than the Government reports in its Public Accounts. William Robson, Chief Executive Officer of the C.D. Howe Institute and co-author of the study writes: "Ottawa's usage of a moving average of past nominal yields on 20-year federal government bonds; as well as an assumed return on investments of 4.2%, based upon averages earned since the year 2000 … do not reflect investment returns available in the real world. Both of these interest rates are well above anything currently available on any asset which matches the plans' obligations."

- Chinese gold imports from Hong Kong, which is a proxy for all overseas buying, reached a record high in October of 85.7 tonnes, which was equal to more than a quarter of global demand. This was 50% higher than the previous month and up more than 40 times from October of last year. The total amount of gold being imported into China through Hong Kong reached 286.8 tonnes in the first ten months of 201, which is triple the amount from a year earlier. This begs the question- Why so much gold? After all Chinese gold production is the largest in the world at more than 300 tonnes per annum and all of it must stay in the country. Are these imports going straight into the Chinese central bank vaults?



- Statistics Canada reports the credit burden of Canadian consumers continues to grow as they assume more debt amid stagnating incomes. The ratio of debt to personal disposable income – a key measure of consumer indebtedness – reached 152.98% in the 3rd. quarter from 150.57% in the 2nd. quarter; the third consecutive quarter that debt has increased.

- Front Page Headline, National Post – "Greece's Structural Reforms Behind Schedule: International Monetary Fund. In a conference call with reporters, Poul Thomsen, Deputy Director of the IMF's European Department and mission chief to Greece warns: 'Greece's structural reforms have fallen short. Not only are they well behind schedule, but also, there has been too much reliance on taxation … It's too early to know whether additional measures will be needed to fund Greece. Our view is there is a need to refocus the fiscal program on the expenditure side. We have reached the limit of what can be achieved through increased taxation."

- Front Page Headline, National Post – "U.S. President Obama Calls Bluff on Keystone Bill. In a policy statement, the White House denounces a Republican bill which links a politically popular payroll tax cut extension to the permitting of TransCanada's Keystone XL pipeline. The White House formally states President Obama's intention to veto the House legislation that would force the State Department to make a decision on the Keystone XL oil sands pipeline, within 60 days of receiving an application from Calgary-based TransCanada. 'With only days left before taxes go up for 160 million hard-working Americans (the Republican legislation) plays politics at the expense of middle-class families. This debate should not be about scoring political points."

WEDNESDAY, DECEMBER 14TH

- Statistics Canada reports the nation's index of leading economic indicators rose by 0.8% in November – the fifth consecutive monthly increase – following a revised gain of 0.3% in October, citing 8 out of 10 index components increased during the month, including a 4.1% gain in new factory orders

- The Labor Department reports U.S. import prices rose by 0.7% in November, following a decline of 0.5% in October, despite lower costs for metals and food products

- Statistics Canada reports October was the sixth-biggest sales month for B.C. foresters in China, however, at $89 million (CAD) it was only 8% higher than a year ago. While shipments remain near an all-time peak, the growth in sales of B.C. spruce, pine and fir to China has almost completely stalled, as a slowing Chinese real estate market has led to excess inventories of Canadian lumber.

- Front Page Headline, Financial Times – "China Set to Tax U.S.-Made Auto Imports. In a statement, China's commerce industry announces that it will take action in response to damage to its auto industry from U.S. 'dumping and subsidies.' The move will affect several larger vehicles popular in China, including sport utility vehicles manufactured by Germany's BMW and Mercedes Benz brands at their U.S. plants. The German brands will be peanlized at the low end of the scale around 2%, whereas Chrysler will pay a penalty of 15% and General Motors a whopping 22%. "This action is the latest in a flurry of legal actions between the US and China, in which each country accused the other of supporting domestic industry with illicit state subsidies and challenged each other's use of emergency blocks on imports." Financial Times. We might warn the US-'Don't bite the hand that feeds you.' Are Smoot and Hawley rising from their graves?

- Headline Globe and Mail, Report on Business "Record High Household Debt Triggers Alarm" "Growing Debt burden posesrisk to economy as more consumers strain to keep up with costs."
  "Canadians have set a new record for household debt, a sign that many families are leaving themselves vulnerable to an economic shock."
  "The debt burden of Canadian households has surpassed levels of both the United States and the United Kingdom and, by at least one measure, they are hurtling toward those countries' peak levels of 2007, new Statistics Canada data show."

THURSDAY, DECEMBER 15TH

- The Labor Department reports U.S. initial jobless claims declined by 19,000 to a seasonally adjusted 366,000 in the week ended December 10th. while continuing claims increased by about 4,000 to 3.603 million in the week ended December 3rd. The number of people who have exhausted their traditional benefits and are now receiving emergency or extended benefits under federal programs increased by about 874,670 to 7.45 million in the week ended November 26th.

- The Labor Department reports the U.S. Producer Price Index rose by 0.3% in November paced by a 1% increase in the food component, following a decline of 0.3% in October; while the core rate (excluding food and energy) rose by 0.1%

- The Office for National Statistics reports U.K. retail sales declined by 0.4% in November as households shunned a second consecutive month of price discounts, amid warnings of a looming economic recession

- The Confederation of British Industry (CBI) reports its index of factory orders declined to a reading of minus 23 in December from a level of minus 19 in November, as exports declined to their lowest point since October 2010. CBI Chief Economic Adviser Ian McCafferty commented: "Undoubtedly, the weaker export performance reflects ongoing instability in the euro area – our biggest export market – and its direct impact on prospects for the real economy. A clear and orderly solution to the (euro zone debt) crisis remains essential to preventing further adverse (economic) effects."

- The Federal Reserve Bank of New York reports its Empire State Index (general economic gauge) rose to a reading of 9.5 in December from a level of 0.6 in November, as components of employment and new orders improved. Separately, the Federal Reserve in Washington reports U.S. industrial production – the national output at factories, mines and utilities – declined by 0.2% in November, following a 0.7% gain in October. Capacity utilization, which measures the amount of plant usage, declined to 77.8% from 78% in October. Robert Dye, chief economist at Comerica Inc. in Dallas commented: "Obviously, there are concerns about a weaker global (economic) situation and I think that manufacturers are feeling justifiably cautious. The European and Chinese situations are potential problems here if their economies turn south quickly."

- The Commerce Department reports the U.S. current account deficit narrowed to $110.3 billion (U.S.) in the 3rd. quarter – the lowest level since the 4th. quarter of 2009 – citing stronger exports of commercial aircraft and increases in the services sector, such as the sale of airline tickets to foreigners. The current account is the broadest measure of America's financial dealings with the world. It includes not only trade in goods, but also services and investment flows among nations.

- The Canadian Real Estate Association (CREA) reports November sales of existing homes rose by 6%, while home prices added 4.6% on a year-over-year basis. It was the third consecutive month that national activity was higher than the prior month.

- Front Page Headline, Wall Street Journal – "Morgan Stanley to Cut 1,600 Jobs. The layoffs amount to 2.6% of the New York securities firm's work force and will be spread globally across all job levels. A corporate spokesman stated: 'The layoffs will follow Morgan Stanley's year-end management performance process and its evaluation of the right size of the franchise."

- Front Page Headline, Financial Times – "U.S. Congress Steps Back from Shutdown. U.S. Congressional leaders reached an agreement to avert a government shutdown, appearing ready to strike at least a separate agreement to extend stimulus for the U.S. economy for two months and ease the political gridlock which has held Washington hostage for all of 2011. Republican and Democratic lawmakers signed off on a $1 trillion (U.S.) spending bill which will fund government agencies through the fiscal year ending September 30, 2012. The agreement on spending is seen as paving the way for the leaders of both parties to focus on a plan to extend payroll tax cuts and jobless benefits due to expire at the end of this month."

- Front Page Headline, Financial Times – "IMF Managing Director Warns Over 1930s-Style Threats. In a speech from the U.S. State Department in Washington, Christine Lagarde, Managing Director of the International Monetary Fund (IMF), warns that the global economy faces the prospect of "economic retraction, rising protectionism, isolation and a possible 1930's economic depression" as European tensions flared again over suggestions in Paris that the 'AAA' credit rating of the U.K. should be downgraded before France's. "There is no economy in the world, whether low-income countries, emerging markets, middle-income countries or super-advanced economies that will be immune to the crisis that we see, not only unfolding but escalating. It is not a crisis that will be resolved by one group of countries taking action. Hopefully, it is going to be resolved by all countries, all regions and all categories of countries actually taking action." Ms Largarde you should have been a long-time subscriber to this website, because you would have been able to make that prediction a long time ago.

- Christian Noyer, Governor of the Bank of France, had stated that a French downgrade could not be justified by economic fundamentals. However, in the event that credit rating agencies did issue downgrades, Governor Noyer added that they should begin by first lowering the 'AAA' credit rating of Britain, which 'has bigger deficits, more (national debt), higher inflation, less (economic) growth than us and where credit is shrinking.' French Prime Minister, Francois Fillon, also took a swing at Britain, noting that its high debt and deficits had not been recognized by the credit rating agencies. British officials were privately astonished by the remarks. A spokesman for David Cameron, U.K. Prime Minister, remarked: "We have put in place credible plans for dealing with our deficit – the credibility in our plan can be seen in what happened with yields on our bonds." A U.K. Treasury official added: "The markets clearly don't agree with Governor Noyer." Wake-up call for Governor Noyer: Friday, December 16th.

FRIDAY, DECEMBER 16TH

- Front Page Headline, Bloomberg News – "Fitch Cuts France's 'AAA' Sovereign Debt Outlook from Stable to Credit Watch Negative. In an e-mailed statement Fitch Ratings cites: 'Of particular concern is the absence of a credible financial backstop. This requires a more active and explicit commitment from the European Central Bank (ECB). Without a comprehensive solution, the EU sovereign debt crisis will persist, punctuated by episodes of severe financial market volatility, which is a particular source of risk to the sovereign governments of those countries with levels of public debt, contingent liabilities and fiscal and financial sector financing needs that are high relative to their rating peers."

- The National Statistics Bureau reports China's house prices declined in 49 cities monitored by the government in November – compared to 33 cities in October – as a result of higher down payment and mortgage restrictions imposed on prospective property buyers. Jinsong Du, a Hong Kong-based real estate analyst with Credit Suisse Group AG commented: "Home prices will fall further as the government's tightening policy continues. We will see more small developers file for bankruptcy, or sell off their assets next year."

- At a ministerial meeting in Geneva, Russia's membership into the World Trade Organization (WTO) is formally approved, following 18 years of negotiation. Russia's $1.9 trillion (U.S.) economy – with the world's second largest nuclear arsenal after that of the United States – had been the largest outside of the WTO and heavily dependent upon energy exports. Russian President Dmitry Medvedev commented: "This result of long and complex talks is good both for Russia and for our future (trading) partners." Let's hope western governments don't ultimately rue the day.

- The National Statistics Office reports Ireland's gross domestic product contracted by 1.9% in the third quarter ended September 30th. citing mainly declining g personal consumption and a steep decline in investment, as the euro zone debt crisis deepened. David Begg, General Secretary of the Irish Congress of Trade Unions commented: "Current (government) policies are making an economic recovery almost impossible. No economy can sustain the sort of ongoing severe austerity measures that are being inflicted upon us. The latest figures show, yet again, a big drop in domestic demand while retailers warn of more closures in the new year." Jonathan Lyons, an economist with Capital Economics warns: "The figures rather spoil Ireland's emerging image as a 'poster boy' for other debt-laden euro zone peripheral economies. With borrowing costs significantly higher than Italy, Ireland's future prospects within the single currency (euro) are far from secure."

- Front Page Headline, National Post – "Tories End Forced Retirement. The section of the Canadian Human Rights Act which permitted mandatory retirement was repealed last week, meaning 12,000 federally regulated employers will no longer be able to force their employees into retirement, beginning in December 2012.

- Front Page Headline, Financial Times – "ECB President Draghi Warns on Euro Zone Dissolution. In his first interview with the press since becoming President of the European Central Bank on November 1st. Mario Draghi warns: "Struggling Euro Zone countries that quit the currency bloc would face still greater economic pain. For remaining members, European Union law would have been broken and you never know how it ends really. Countries that left and devalued their currency would create a big inflation and fail to escape from structural reforms that would still have to be implemented, but in a much weaker position. To fight the debt crisis, Mr. Draghi stressed the importance of unprecedented measures taken by the ECB to strengthen euro zone banks, which include its first offer of unlimited three-year loans this week. However, he emphasized that the region's politicians must take the lead in rebuilding investor confidence in euro zone public finances, by ensuring fiscal discipline and making the European Financial Stability Facility (EFSF) fully operational."


ECB President Mario Draghi – Source: Financial Times

- Front Page Headline, Financial Times – “Moody’s Downgrades Belgium. Moody’s Investors Services downgrades Belgium’s sovereign debt credit rating by two levels – from Aa1 to Aa3 – citing: ‘the uncertainty over the political future and the risks that a shrinking national balance sheet would pose to its banking system. The outlook remains negative.’ Camilla Sutton and Eric Theoret, strategists at Scotia Capital commented: ‘This development is not surprising considering the loss of confidence as sovereign debt downgrade fears loom, amid concerns over funding requirements in 2012.”

- Front Page Headline, Washington Post – “Agreement on Payroll Taxes Collapses. The fate of an agreement to extend the payroll tax cut for two months is uncertain … its passage apparently torpedoed with a last-minute revolt by House Republicans

CLOSING LEVELS FOR FRIDAY, DECEMBER 9TH.		WEEKLY CHANGE
Dow Jones Industrial Average	11,866.39	– 317.87 points
Spot Gold Bullion (February)	$1,597.90 (U.S.)	– $118.90 per oz.
S&P / TSX Composite	11,635.38	– 399.37 points
10-Year U.S. Treasury Yield	1.85%	– 21 basis points
Canadian Dollar	96.43 cents (U.S.)	– 1.76 cent
U.S. Dollar Index Future (Spot Price)	80.141 cents	+ 1.548 cent
WTI Crude Oil (January)	$93.53 (U.S.)	– $5.88 per barrel

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