Monday January 2nd, 2012

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, January 2nd

HSBC Holdings Plc and Markit Economics report India's purchasing managers' index rose to a reading of 54.2 in December from a level of 51 in November. Lief Eskesen, a Singapore-based economist at HSBC commented: 'Indian manufacturing activity re-

MONDAY, JANUARY 2ND
New Year's Holiday in Canada, Great Britain and the U.S.

bounded on the back of output increases and new orders. However, inflationary pressures remain firm, leaving no room for the Reserve Bank of India (RBI) to ease its tight monetary stance in the near term.'

- The Central Bureau of Statistics reports the Indonesian inflation rate declined for a fourth consecutive month to 3.79% in December, on a year-over-year basis. Economists at PT Bank Mandiri in Jakarta commented: 'While December's inflation figure is better than our expectation, we still think inflation will accelerate to 5.5% this year. The government's plan to limit subsidized-fuel consumption and to raise electricity tariffs may add pressure. With this condition, the opportunity for the central bank to lower its benchmark (lending) rate diminishes. We think it will maintain the rate at 6%.'

- Front Page Headline, Wall Street Journal – "Spain Scrambles to Contain Budget Deficit. Cristobal Montoro, Spain's Budget Minister, announces additional austerity measures will be tabled for approval at a cabinet meeting on Thursday. The introduction of new measures are in addition to spending cuts and tax increases approved last week; as Spain attempts to contain a budget deficit that may have surpassed 8% of gross domestic product (GDP) in 2011. Spanish Finance Minister Luis de Guindos warned: 'Everyone must make sacrifices. We are in a very difficult and complex (economic) situation, probably the toughest we've seen in decades' with the number of unemployed nearing five million.

- Front Page Headline, Bloomberg News – "EU Will Lose a Country in 2012: CEBR. In a press release, the London-based Center for Economics and Business Research predicts: 'It now looks as though 2012 will be the year when the European Union (EU) begins to dissolve … While we are only forecasting a 60 per cent probability; our prediction is that by the end of 2012, at least one country (and probably more) will leave the EU. Ten years after euro bank notes replaced national currencies on January 1, 2002, the euro has for the first time recorded two consecutive annual losses against the U.S. dollar, while plunging to a record low against the Japanese yen. This increases the pressure on European leaders as they struggle to hold the monetary union together in the face of (sovereign debt) credit (rating) downgrades, European Union splits and a looming (economic) recession which may exacerbate rising debt levels. The (debt) crisis may force most of the French and German banking systems to seek bailouts, (in order) to compensate for write downs on their holdings of sovereign debt. Moreover, they might even be nationalized. Many other European banks will regress into crisis (mode).

- Front Page Headline, Financial Times – "Funding Gap Doubles for U.S. Corporate Pensions. The funding gap for American corporate pension plans almost doubled in 2011, as bond yields declined and stock market performance failed to keep pace with rising liabilities, leaving a wider unfunded pension gap than at the end of 2008. According to a Credit Suisse study, from a moderate surplus at the end of 2007, pension plan assets at S&P 500 companies now cover only about 74 per cent of estimated liabilities, leaving a deficiency of about $450 billion (U.S.). At the beginning of 2011, the S&P unfunded pension gap was estimated at $250 billion (U.S.). Brendan Hanley, a managing director at BofA/Merrill Lynch noted: 'The number of companies which must consider pension funding is growing and bond issues are an obvious funding option."

- Markit Economics reports while the euro zone's manufacturing purchasing managers' index rose slightly to a reading of 46.9 in December from November's 28-month low level of 46.4, it marked the fifth consecutive month that the index registered a reading below 50, the level which divides growth from contraction. Chris Williamson, chief economist at Markit commented: "Despite the rate of decline easing in December, production appears to have been collapsing across the single currency area at a quarterly rate of approximately 1.5 per cent in the final three months of 2011. The survey also points to a strong likelihood of further declines in the first quarter of 2012, with producers cutting back headcounts, inventories and purchasing. Worryingly, new orders are falling at a far faster rate than manufacturers have been reducing output, meaning firms have become reliant upon orders placed earlier in the year to sustain current production levels."

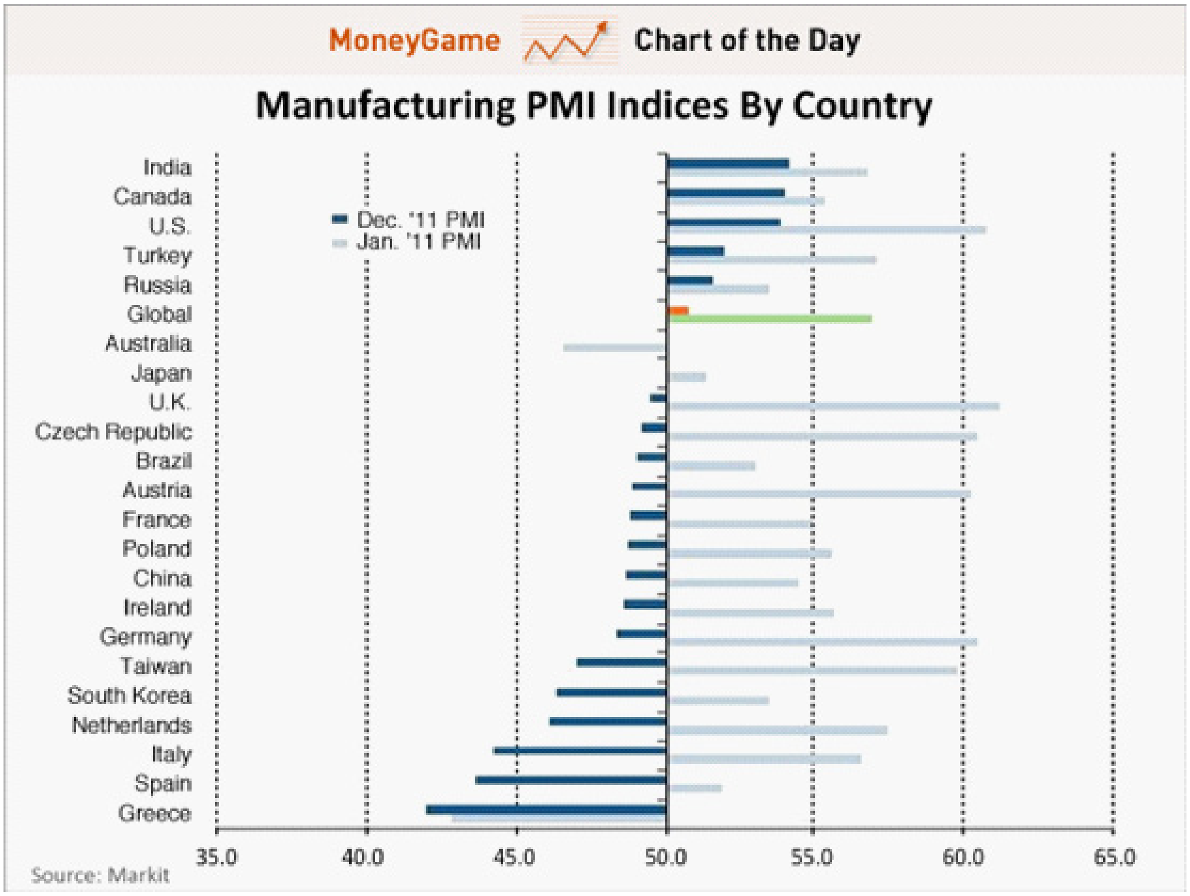
- Front page Headline, Daily Telegraph U.K. – "Euro Zone Debt Crisis: Leaders Warn of Dangers Facing Economy in 2012. In respective New Year's television addresses:
  1. German Chancellor Angela Merkel warns: 'The path to overcoming Europe's sovereign debt crisis won't be without setbacks, but at the end of this path, Europe will emerge stronger from the crisis than before. While the euro has made everyday life easier and our economy stronger, no doubt 2012 will be more difficult than 2011. Today, you can trust that I will do everything to strengthen the euro. This will only succeed if Europe learns from the mistakes of the past. One of these is that a common currency can only be successful if we co-operate more than in the past in Europe.' Chancellor Merkel will meet with French President Nicolas Sarkozy in Berlin on January 9th. to discuss revisions to Europe's fiscal rule book, following decisions made at the December Summit.
  2. President Sarkozy – facing a re-election battle this year and trailing in the polls – notes: 'There must be structural changes made to the French economy. What is happening in the world announces that 2012 will, not only be a year full of risks, but also, a year full of possibilities: full of hope if we know how to face the challenges, but full of dangers if we stand still. Emerging from the (debt) crisis building a new model for (economic) growth and giving birth to a new Europe are some of the challenges that await us.'
  3. Italian President Giorgio Napolitano states: 'Today, nobody – no social group – can stall on the commitment to contribute to the revival of public accounts, (in order) to avoid the financial collapse of Italy. The sacrifices won't be useless. Only united can we progress and count as Europeans in a radically changed world. While Italy must fight corruption and tax evasion, the nation has no future without regeneration of the political system. We all need to understand that for a long time the State grew too much and spent too much; resulting in the imposition of heavy taxes on honest contributors and placing a serious mortgage on the shoulders of future generations.'
  4. In an e-mailed statement, Greek Prime Minister Lucas Papademos concedes: 'Our country faces a difficult year (in 2012) and must continue its efforts to remain in the euro and avoid economic collapse.'

TUESDAY, JANUARY 3RD

- Front Page Headline, Bloomberg News – World's Biggest Economies Face $7.6 Trillion (U.S.) of Maturing Debt. Governments of the world's leading economies have in excess of $7.6 trillion (U.S.) of sovereign debt maturing this year, with most facing an increase in refinancing costs. According to data compiled by Bloomberg, led by Japan's $3 trillion (U.S.) and America's $2.8 trillion (U.S.), the amount maturing for the Group of Seven nations and Brazil, Russia, India and China is up from $7.4 trillion (U.S.) at this time a year ago. Surveys indicate that fixed-income investors may demand higher bond yields for countries that struggle to finance increasing debt burdens as the global economy slows. Stuart Thomson, a fund manager at Glasgow-based Ignis Asset Management, commented: "Rather than the beginning of the year being a problem, it's mid-year that becomes the problem. That's when we will witness the global economic slowdown having its biggest impact."

- The Nuremberg-based Federal Labour Agency reports Germany's number of unemployed people declined by a seasonally adjusted 22,000 to 2.89 million in December and the unemployment rate fell to 6.8%; as exports of automobiles and machinery increased and mild winter weather fostered jobs in the construction industry

- The Institute for Supply Management (ISM) U.S. manufacturing purchasing managers' index rose to a reading of 53.9 in December, following a level of 52.7 in November. Paul Dales, a senior economist at Capital Economics commented: "It is difficult to perceive the U.S. economy strengthening further. America will



surely struggle when the euro zone is on the cusp of a severe recession and when (economic) growth in Asia is set to slow. Therefore, 2012 should still be a challenging year for the U.S. economy, perhaps resulting in (GDP) growth of no more than 1.5%." Separately, the Commerce Department reports U.S. construction spending rose by 1.2% to a seasonally adjusted annual pace of $807.11 billion (U.S.) in November, following a downwardly revised level of 0.2%, previously reported as a gain of 0.8%.

- Front Page Headline, Wall Street Journal – "U.S. Federal Reserve to Publish Fed Funds Rate Forecasts. From the minutes of its December monetary policy meeting, the Federal Open Market Committee (FOMC) discloses its intention to 'enhance the clarity and transparency of its public communications. The Fed's subcommittee on communications recommended an approach for incorporating information about participants' projections of appropriate future monetary policy into the Summary of Economic Projections (SEP), which the FOMC releases four times each year … Accordingly, beginning in January, the SEP will include information about participants' projections of the appropriate level for the target Fed Funds rate in the fourth quarter of the current year and the next few calendar years. Over the longer term, the SEP will also report participants' current projections of the likely timing of the first increase in the target Federal Funds rate, given their projections of future economic conditions."

- Front Page Headline, Wall Street Journal – "Treasury Dept. Sees U.S. Debt Near Limit by Friday. The Treasury Department anticipates the U.S. debt 'subject to limit' will come within $100 billion (U.S.) of its ceiling by Friday, January 6th. Under the Budget Control Act of 2011, the Obama administration will submit a written certification to Congress seeking a $1.2 trillion (U.S.) increase in the statutory debt limit, currently at $15.194 trillion (U.S.). In turn, Congress could consider 'a joint resolution of disapproval.' If such a resolution is not enacted within 15 calendar days, the debt limit would be increased on January 14th. If a resolution is enacted within 15 days, the debt limit would not be increased, but President Obama could veto it." Political gridlock on this subject unfolding in the midst of a presidential election year would surely incur the wrath of the electorate to no end.

- The Conference Board of Canada reports home sales in November rose in 16 of the 28 markets the Board tracks for its metro resale index, with seven of those markets posting a gain of more than 5% over October's sales. Year-over-year sales rose in 15 areas, down from October, when 20 of the urban areas posted sales growth over 2010. The Board cited: 'The supply of new listings declined in 23 of 28 markets, but still exceeded year earlier levels in 20 jurisdictions. An easing in the supply of listings, combined with slightly weaker sales gains, lifted the sales-to-listings ratio in 23 markets. This left four areas as 'sellers' markets, while 21 remain 'balanced.'

- Front Page Headline, Telegraph U.K. – "Greece Out of Euro if Bailout Fails: Official. Greece is struggling to enact tough austerity measures needed to secure a second EU bailout. European Union officials are preparing to conduct a financial inspection in Athens which will decide the terms of the rescue package, agreed upon in principle last October. Greece is also attempting to negotiate a refinancing with private holders of sovereign debt maturing in March. In a television interview, Pantelis Kapsis, a Greek government spokesman, declared: "The bailout agreement must be signed; otherwise Greece will be out of the (bond) markets, out of the euro. The next three to four months are the most crucial and that is the reason this government exists."

WEDNESDAY, JANUARY 4TH

- Front Page Headline, Daily Telegraph U.K. – "Britain's Construction Sector Grew in December. The Markit/CIPS construction purchasing managers' index (PMI), which measures activity in the U.K. housing, commercial and civil engineering sectors, rose to a reading of 53.2 in December, following a level of 52.3 in November. Howard Archer, Chief U.K. Economist at IHS Global Insight commented: 'It is welcome news to see any evidence that part of the economy is growing at the moment. However, signs that construction output expanded in the 4th. quarter of 2011 does not hugely dilute concern that gross domestic product (GDP) could have contracted. The construction sector only accounts for 7.6% of GDP, while the corresponding manufacturing surveys indicate that activity in that sector contracted appreciably in the 4th. quarter."

- The New York-based International Council of Shopping Centers (ICSC) reports U.S. same store sales – retail outlets open for more than a year – rose by 5.3% in the last week of December from the same period a year ago, citing "heavy price discounts" prevalent throughout the holiday season

- SouFun Holdings Ltd. – China's largest real estate website owner – reports the country's existing home prices declined by 0.25% in December, citing government plans to maintain home purchase restrictions this year. Residential prices fell in 60 of the 100 cities tracked by the company, including all of the nation's 10 biggest cities such as Shanghai and Beijing.

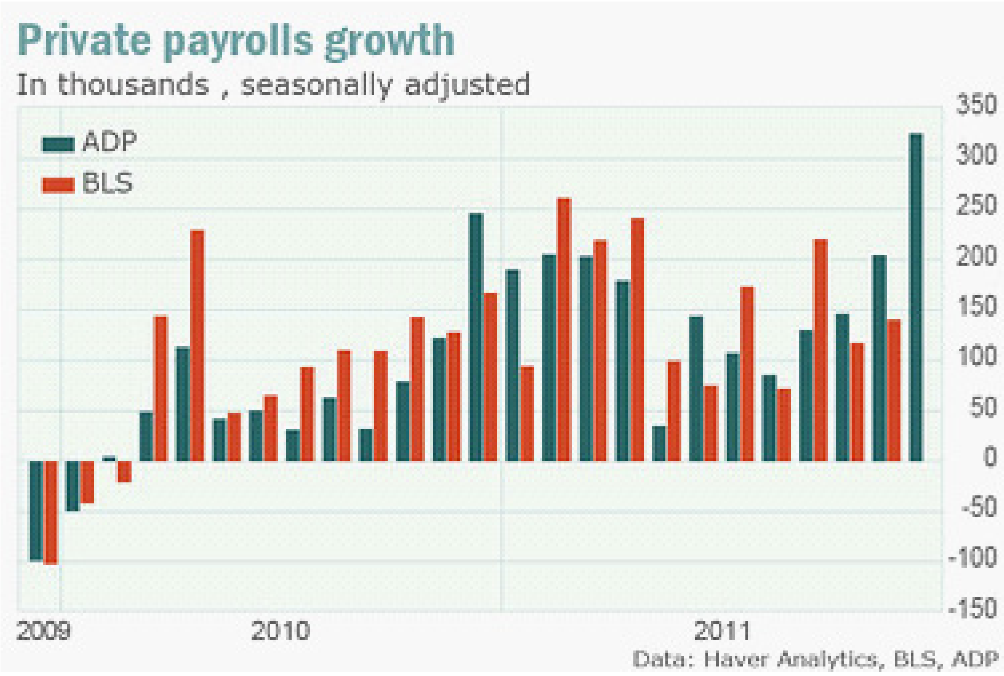
- Chrysler Group LLC reports a 37% increase in December sales to 138,019 cars and light trucks. Rebecca Lindland, an analyst with IHS Automotive commented: "We're going to be really pleasantly surprised again, by how well (vehicle) sales are coming in. There is just a tremendous amount of pent-up demand." Separately, Nissan reports its U.S. December deliveries increased by 7.7% to 100,927 vehicles. Chrysler Canada reports is vehicle sales rose by 13% in 2011 on a year-over-year basis, as Canadians purchased 230,992 vehicles; while Volkswagen Canada posted record sales gains of 16% in 2011.

- Front Page Headline, Globe and Mail – "Bond Market Gives Euro Zone Brief Respite. Germany auctions 4.06 billion euros ($5.3 billion U.S.) of 10-year bunds at an average yield of 1.93%, while Portugal auctions 1 billion euros of 3-month treasury bills at an average yield of 4.346%, about 53 basis points lower than the previous auction in December. Filipe Silva, a portfolio manager at Portuguese financial group Banco Carregosa commented: "There's been an improvement in the risk perception of Portuguese debt which has driven yields down. Now we just need to see whether (or not) it holds."

THURSDAY, JANUARY 5TH

- Front Page Headline, MarketWatch News – "U.K. Warns Iran Against Blocking Strait of Hormuz. U.K. Defense Secretary Philip Hammond warns Iran that Britain would take military action if Iran attempted to block traffic through the Strait of Hormuz: 'Our joint naval presence in the Arabian Gulf, something our regional partners appreciate, is key to keeping the Strait of Hormuz open for international trade. It is in all our interests that the arteries of global trade are kept free, open and operational. Disruption to the shipping of oil through the Strait would threaten regional and global economic growth."

- Front Page Headline, MarketWatch News – "December Private Sector Jobs Increase by 325,000: ADP. According to the employment report released by Automatic Data Processing, private sector payrolls increased by a seasonally adjusted 325,000 in December, led by the services sector and small businesses.



- Front Page Headline, MarketWatch News – France Auctions 8 Billion Euros of Long Term Debt. In a multi-tranche auction, the French government issues 8 billion euros ($10.3 billion U.S.) of long term bonds, including 4.02 billion euros of 10-year bonds at an average yield of 3.29% – up 11 basis points from a similar December auction. France also issued 690 million euros of an October 2023 maturity at an average yield of 3.50%; 1.1 billion euros of a 2025 bond at an average yield of 3.96% and 2.2 billion euros of a 2042 maturity at an average yield of 3.97%."

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 15,000 to 372,000 in the week ended December 31st. while continuing claims fell by 22,000 to 3.6 million in the week ended December 24th. Those people who have exhausted their traditional benefits and are now receiving emergency or extended benefits from federal programs increased by about 5,400 to 3.5 million in the week ended December 17th.

- Chicago-based Challenger, Gray and Christmas report planned firings announced by U.S. employers rose by 31% to 41,785 in December. Job layoffs totaled 606,082 for all of 2011 – wherein government and financial services counted for 40% of announcements – up 14% from 2010. Chief Executive Officer John Challenger commented: "While several other sectors saw increased job cuts, the pace of downsizing in most industries is still well below recession levels. However, even as job cuts remain low in most sectors, employers still appear reluctant to add jobs. Job creation is likely to remain slow and steady in 2012."

- China's Commerce Minister Chen Deming reports the nation's trade surplus declined to $160 billion (U.S.) for 2011, from a surplus of $183.1 billion (U.S.) recorded in 2010. According to Reuters News Agency, China recorded a trade surplus of $21.6 billion (U.S.) in December – a four month high – and sharply higher than November's $14.5 billion (U.S.).

- Front Page Headline, Globe and Mail – "Greek PM Warns of Default Without Loan Agreement. In a meeting with union leaders and employers' federations, Greece's Prime Minister Lucas Papademos warns: "Without an agreement with the European Union (EU) troika (international debt inspectors) and the resulting funding, Greece faces an immediate failure of a disorderly default in March. If we want to secure our most significant achievements – participation in the euro and avoidance of a massive, vertical income devaluation that a disorderly bankruptcy and exit from the euro would incite – then we must accept a short-term income reduction. The troika has called for a reexamination of labour costs, (in order) to boost lagging competitiveness and fight high unemployment. Unless significant action is taken, Greece will not receive its next vital installment. If we do not make the necessary adjustments, it is to be taken for granted that we cannot expect that the other EU countries and international organizations will continue to finance a country that does not adjust to reality and does not tackle its problems. With the beginning of 2012, we enter the most critical period for the course of the Greek economy. The coming few weeks will be extremely crucial." In response, GSEE President Yiannis Panagopoulos insisted: "The national collective wage agreement, which includes minimum wage provisions and holiday pay known as the 13th. and 14th. salaries, was not open for negotiation. Workers and pensioners have shouldered a disproportionately high burden of the crisis and now have no more leeway for further cutbacks and reversals in labour relations." Dimitris Daskalopoulos, President of the Hellenic Federation of Enterprises vowed: "My industry federation will do whatever it can to ensure that the minimum wage is not lowered." Troika officials are due in Athens on January 15th. Key details of the second bailout agreement are still being negotiated. Of primary importance is the provision under which private creditors, such as banks and investment firms, would take a 50% 'haircut' in the face value of the Greek bonds they hold. Greece must implement the 'haircut' ahead of the March 20th. date when 14.4 billion euros of sovereign bonds mature. Athens would not be able to make the repayment without the second bailout, while the bond write down would also reduce and delay the amount that would be due. The Institute of International Finance (IIF), which has been leading negotiations on behalf of Greece's private creditors, reported yesterday that some progress had been made in the discussions in recent days. However, indicating the urgency of finding a solution, the IIF stressed an agreement must be found soon."

- Front Page Headline, Globe and Mail – "Debt Worries Grow as China Land Auctions Decline. According to Centaline, a real estate company, nearly 900 land auctions failed in China during 2011—about triple the number in 2010 – exacerbating the woes of debt laden local governments which depend on land auctions as a crucial revenue source. According to the China Index Academy (a property research group), government revenues from land sales declined by 13% in 130 of China's major cities to 1.9 trillion yuan ($300 billion U.S.). Centaline noted that one third of the failed auctions occurred in November and December alone. Huang Yu, Vice President of the China Index Academy, recently informed the state media 'the national land market is entering a deep freeze."

- Front Page Headline, Wall Street journal – "Asian Stocks Approach 3-Year Low. Chinese stocks close at their lowest level in nearly three years leading broad losses across major Asian markets, as worries about the property sector and tight liquidity conditions hit investor sentiment. In China, the Shanghai Composite declined by 1% to 2,148.45 points, its lowest closing level since March 13, 2009, while the Shenzhen Composite fell by 3.5% to 813.99 points.

FRIDAY, JANUARY 6TH

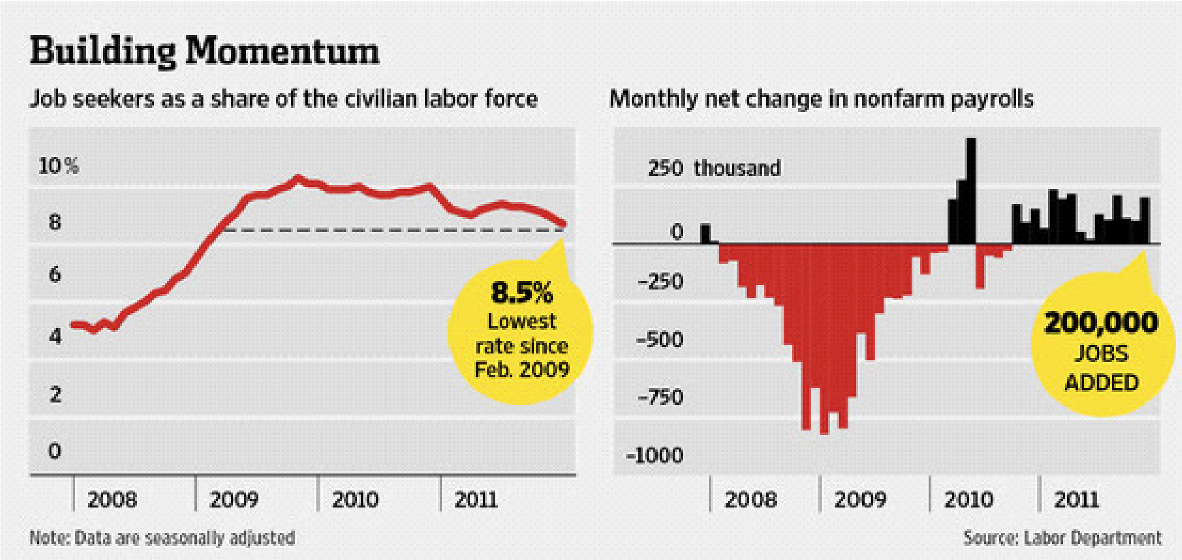
- Front Page Headline, Bloomberg News – "U.S. Corporate Profit Growth Hits a Two Year Low. According to analysts' estimates, Standard & Poors 500 Index companies may have earned only $24.74 (U.S.) in the 4th. quarter, the smallest quarterly year-over-year gain since September 2009. Mark Luschini, chief investment strategist at Philadelphia-based Janney Montgomery Scott LLC commented: "Slowing global (economic) growth, some impairment in export activity to Europe and perhaps even the rise of the dollar, collectively, have begun to sort of work against the multinational story."

- Front Page Headline, Wall Street Journal – "JAL Plans IPO to Raise $6.5 Billion (U.S.). Japan Airlines Co. plans to raise at least $6.5 billion (U.S.) with a re-listing of its shares in the autumn. Since filing for bankruptcy court protection in January 2010, with a debt load of $25 billion (U.S.), JAL's earnings have rebounded strongly with the assistance of government bailouts and a sweeping streamlining of its work force, routes and operations. However, questions remain over what JAL can do to improve its longer term growth prospects amid intensifying competition."

- The Labor Department reports U.S. non-farm payrolls increased by 200,000 in December, while the unemployment rate declined to a seasonally adjusted 8.5% from a revised 8.7% in November.

- Front Page Headline, New York Times – "Germany Resists Europe's Pleas to Increase Spending. In a recent interview with the Taggespiegel Newspaper, Jens Weidmann , President of the German Bundesbank, stated: "Germany must quickly achieve a structurally balanced budget, to set an example for the rest of the beleaguered euro zone. One of the lessons of the (debt) crisis is that cutting budget deficits should be postponed as little as possible." The Bundesbank President speaks for a large section of the German public. His comments suggest that President Nicolas Sarkozy of France and Prime Minister Mario Monti of Italy should not expect more of a financial commitment when they meet with German Chancellor Angela Merkel in Berlin next week.

- In a presentation to the 18th. Annual Empire Club Outlook Luncheon in Toronto, Nick Barisheff, CEO of Bullion Management Group Inc. noted that the price of gold is now moving in lock step with rising U.S. debt levels: "Based on official estimates, America's debt is projected to reach $23 trillion (U.S.) in 2015 and if the correlation remains the same, the indicated gold price would be $2,600 (U.S.) per ounce. However, if history is any ex-


Building Momentum
Job seekers as a share of the civilian labor force
10 %
8
6
4
2
0
2008
2009
2010
2011
8.5% Lowest rate since Feb. 2009
Monthly net change in nonfarm payrolls
250 thousand
0
-250
-500
-750
-1000
200,000 JOBS ADDED
Note: Data are seasonally adjusted
Source: Labor Department

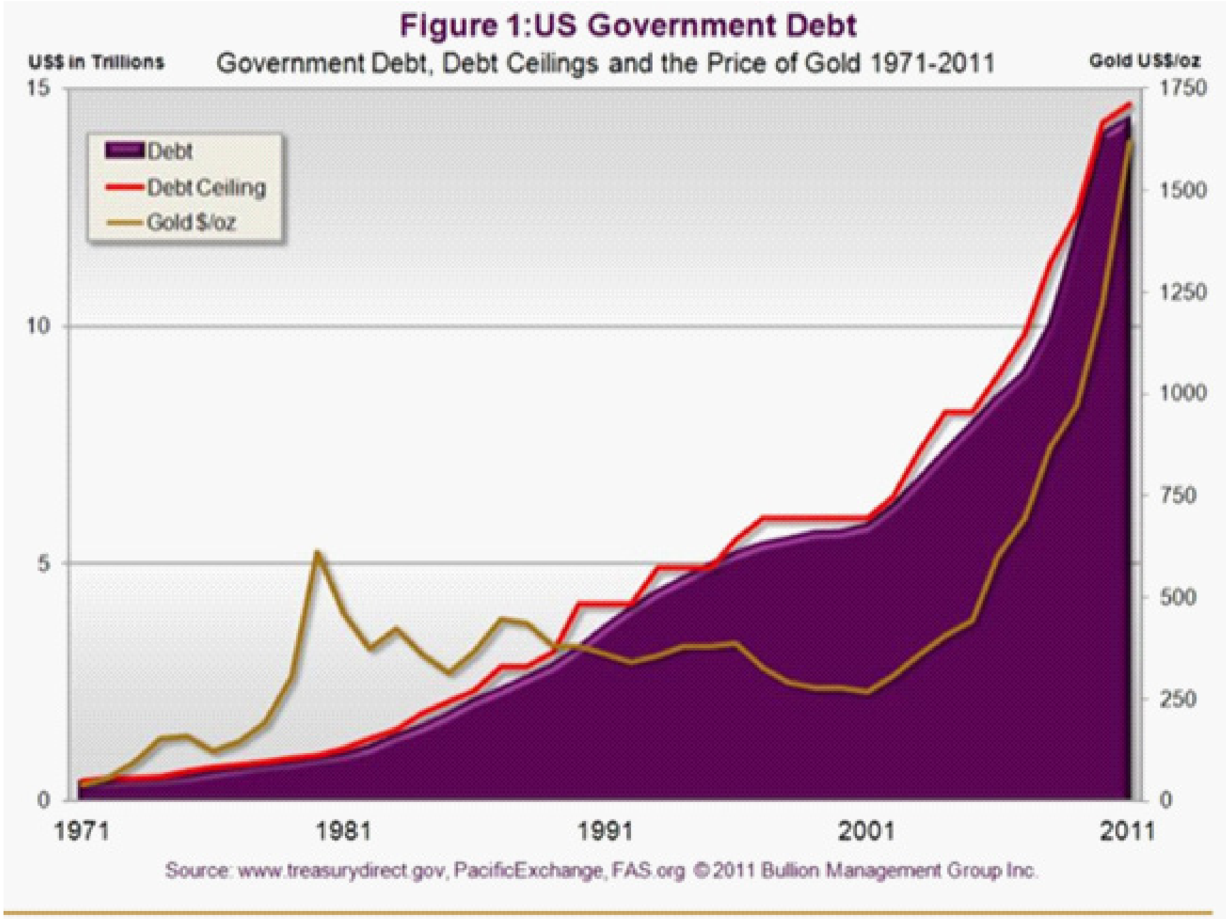
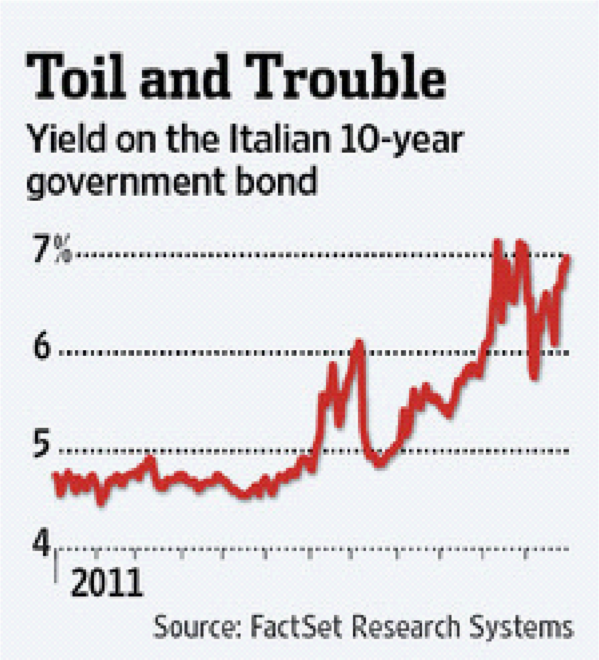


Figure 1:US Government Debt
Government Debt, Debt Ceilings and the Price of Gold 1971-2011
US$ in Trillions
Gold US$/oz
15
10
5
0
1750
1500
1250
1000
750
500
250
0
Debt
Debt Ceiling
Gold $/oz
1971
1981
1991
2001
2011
Source: www.treasurydirect.gov, PacificExchange, FAS.org ©2011 Bullion Management Group Inc.

ample, it's a safe bet that government expenditure estimates will be greatly exceeded and the gold price will therefore be much higher."

- Front Page Headline, Wall Street Journal – "Italian Bond Risk Keeps Simmering. Auctions this week of Italian sovereign government bonds have offered a mixed picture of where Europe's debt stands going into the New Year. On the plus side, Italy raised 16 billion euros ($21 billion U.S.) of cash in two days at lower yields than at previous auctions. However, enthusiasm must be tempered by the fact that Italy's bond yields remain perilously high and the European Central Bank (ECB) was forced to purchase Italian bonds on Thursday, in order to stem a post-auction selloff. With Italy seeking to auction a massive 440 billion euros of treasury bills and sovereign bonds in 2012, the danger remains of a sudden halt in access to financing at single digit yield levels.



CLOSING LEVELS FOR FRIDAY, JANUARY 6TH.		WEEKLY CHANGE
Dow Jones Industrial Average	12,359.92	+ 142.36 points
Spot Gold Bullion (February)	$1,616.80 (U.S.)	+ $50.00 per oz.
S&P / TSX Composite	12,188.64	+ 233.55 points
10-Year U.S. Treasury Yield	1.96%	+ 8 basis points
Canadian Dollar	97.37 cents (U.S.)	– 0.96 cent
U.S. Dollar Index Future (Spot Price)	81.25 cents	+ 1.045 cent
WTI Crude Oil (February)	$101.56 (U.S.)	+ $2.73 per barrel

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