LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, January 9th

Front Page Headline, Wall Street Journal –"Greek Bailout in Peril. German Chancellor Merkel and French President Sarkozy implore Greece and its bondholders to agree on a reduction of Athens' debt burden, warning that Greece's bailout loans from the

MONDAY, JANUARY 9TH

euro zone and the International monetary Fund (IMF) are on hold until an agreement is reached with private investors. In a joint news conference, Chancellor Merkel elaborated: 'The second Greek program must be implemented soon; otherwise it won't be possible to disburse the next tranche of aid loans."

- The Federal Reserve reports American consumer credit increased by $20.4 billion (U.S.) in November, the biggest increase since November 2001, with loans for automobiles and mobile homes, loans for education and higher credit card usage heading the list

- Front Page Headline, Globe and Mail – "Northern Gateway Pipeline Meets Its Highest Hurdle. Public hearings for Enbridge's proposed $6.6 billion (CAD) oil sands pipeline begin in the first nation's settlement of Kitimaat Village, B.C. The arguments concerning aboriginal land rights and environmental impact promise a regulatory battle that may travel all the way to the Supreme Court of Canada. Reflecting the high stakes, the federal government has issued a new warning that regulatory reviews for major energy projects should be accelerated and protected from interference by "radical environmental groups financed from the United States."

- Front Page Headline, Daily Telegraph U.K. – "Fundamental Euro Divide Between Germany and Weak States: Cameron. As German Chancellor Merkel and French President Sarkozy meet in Berlin to discuss the possible imposition of a financial transaction tax (the Tobin tax – named after Nobel Prize-winning economist James Tobin); British Prime Minister David Cameron warns: 'Germany may have to accept a big transfer of wealth to weaker southern European nations to address a fundamental lack of competitiveness."

Source: Daily Telegraph U.K.

- Statistics Canada reports the value of Canadian building permits declined by 3.6% in November, following an 11.6% increase in October. The most significant factor in October's decline was a 34.1% drop in the institutional component after a 178.8% surge in October, largely in medical facilities and government buildings.

- Front Page Headline, Wall Street Journal – "SEC Requests Debt Disclosure Update. In a non-binding guidance memorandum to the financial community, the U.S. Securities and Exchange Commission (SEC) warns that disclosures made by publically traded financial institutions have been 'inconsistent in both substance and presentation.' The SEC guidance asks banks to consider providing a breakdown of their holdings in European sovereign debt, financial institution debt and non-financial corporate bonds. The SEC is also seeking information regarding how gross exposures are being hedged through instruments such as credit default swaps; as well as a discussion of 'the circumstances under which losses may not be covered by purchased covered protection.' In a press release, SEC Chairman Mary Shapiro stated: 'Our staff has been working with banks to improve their disclosure about (European) sovereign debt exposure for several months. Even so, I understand this is an area of focus and uncertainty that could really benefit from further transparency and consistency, particularly as we head into the annual reporting season. I think our staff's guidance should help achieve that goal."

- Front Page Headline, New York Times – "UniCredit's Weak Share Issue Is Poor Omen in Europe. Shares of UniCredit – Italy's largest bank – have plunged by more than 40% in value over the last week, as investors have balked at a new stock offering intended to bolster the bank's capital position. It represents a bad omen for struggling European banks. At the behest of regulators, the region's financial institutions must raise a combined $145 billion euros by June. However, banks may have a difficult time convincing investors to invest more money into the beleaguered industry if UniCredit's experience is any indication. Nicolas Veron, a senior fellow at Bruegel – a research institute in Brussels – commented: 'I think this should scare policy makers. The banks have been saying for some time that it's impossible for them to raise money collectively in this market."

- Front Page Headline, Financial Times – "Traders Cautious in German Treasury Bill Auction. Berlin auctions 3.9 billion euros of 6-month Treasury Bills at a negative yield of 0.0122%. It marks, in effect, the first time that banks and are paying to lend money to a euro zone sovereign credit at a primary auction. Separately, the European Central Bank (ECB) revealed a new record in the amount of cash lodged with it by banks on an overnight basis – 463.565 billion euros – a further sign that financial institutions would rather pay for safety than take the risk of lending to each other."

TUESDAY, JANUARY 10TH

- The Bank of France reports its Business Sentiment Indicator for manufacturers rose to a reading of 96 in December from a level of 95 in November. Separately Insee, the national statistics office reports industrial production increased by 1.1% in December, citing higher electronics and refinery output.

- The Chinese government reports the nation's import growth rose by only 11.8% in December on a year-over-year basis while exports rose by 13.4%. The trade surplus increased to $16.5 billion (U.S.) in December.

- Front Page Headline, Globe and Mail – "RBC and BMO Issue Housing Warning. At an investor conference in Toronto, the chief executive officers of the Royal Bank of Canada and the Bank of Montreal warn that a softer Canadian housing market is a concern in 2012, with particular focus on the condo markets in Toronto and Vancouver, where capacity is significantly overbuilt. Royal Bank CEO Gordon Nixon elaborated: 'When you look at markets like Toronto and Vancouver, there is a level of caution from a risk perspective that is higher today, than it would have been a few years ago."

- Front Page Headline, Globe and Mail – "TransCanada Reignites Keystone XL Pipeline PR Campaign. TransCanada Corp. renews its publicity campaign for the Keystone XL oil sands pipeline, releasing a detailed breakdown of where the $7 billion (CAD) project, if approved, would create 20,000 jobs in the United States. President Barack Obama faces a February 21st. deadline to decide whether the pipeline is in the American national interest, amid some opposition to the project from various environmental groups. In a statement Russ Girling, TransCanada's President and CEO elaborated: 'These are new, real U.S. jobs. About 13,000 Americans would be put to work constructing the pipeline and pumping stations and 7,000 additional jobs would be created in the U.S. manufacturing sector.' TransCanada also itemized the 27 types of jobs that will be needed for each of the 17 construction segments: everything from one environmental coordinator and two welding foremen to 111 labourers and 152 operators."

- Canada Mortgage and Housing Corp. (CMHC) reports the nation's housing starts increased by a seasonally adjusted pace in excess of 200,000 units of single-family and multiple-family dwellings in December, on a year-over-year basis

- Front Page Headline, Wall Street Journal – "Italy Is Biggest Sovereign Risk to Euro: Fitch. Speaking at a conference in London, David Riley, manager of global sovereign ratings at Fitch Ratings commented: 'Italy poses the greatest threat to the euro zone's future, since the lack of a region wide plan to prevent the sovereign debt crisis from spreading has coupled with the country's large debt burden and high sovereign bond yields. Those factors represent the major reason why Italy's credit rating is likely to be downgraded by the end of January. Italy is the front line of this (euro debt) crisis. The country's elevated government bond yields have marked a profound intensification of the crisis. Italy is planning to auction 440 billion euros ($561.67 billion U.S.) of debt in 2012. Given the current state of its bond yield curve, this represents a daunting task."

- Front Page Headline, New York Times – "Fed Transfers $77 Billion (U.S.) in Profits to Treasury Department. The Federal Reserve reports it transferred $76.9 billion (U.S.) in profits to the Treasury Department last year, slightly less than its record 2010 transfer, but considerably more than in any other previous year. By law, the Fed is required to transfer its profits to the Treasury each year. Almost 97% of the Fed's income was generated from interest payments on its investment portfolio, including $2.5 trillion (U.S.) in Treasury securities and mortgage-backed securities. Through those holdings, the central bank has become the largest single investor in federal debt and securities issued by the government-owned mortgage finance companies Fannie Mae and Freddie Mac. As a consequence, most of the money gleaned by the Fed comes from taxpayers."

WEDNESDAY, JANUARY 11TH

- Moody's recent downgrade of the State of Illinois credit rating to 'A2' results in a $525 million (U.S.) auction of10-year Illinois tax-exempt, general obligation bonds at an average yield of 3.10% – 110 basis points over comparable 'AAA' rated issues. In the downgrade, Moody's cited: "Chronic late bill payments and pension fund assets sufficient to cover only 45% of projected liabilities, the least of any state." David Vaught, director of the Illinois Office of Management and Budget commented: "This bond auction clearly signifies to investors that we are taking steps to correct the decades of fiscal mismanagement of our state's finances."

- In its most recent 'Beige Book' survey of business contacts in the 12 Federal Reserve districts, the Fed concludes: "Compared with prior summaries, the reports on balance suggest ongoing improvement in economic conditions in recent months, with most districts highlighting more favourable conditions than identified in reports from late spring through early fall."

- Front Page Headline, Bloomberg News – "Europe's 30 Trillion Euro Pension Obligation Grows as Regional Economies Flounder. According to a study by the Research Center for Generational Contracts at Freiburg University as at 2009 – commissioned by the European Central Bank – the 17 European Union nations had almost 30 trillion euros ($39.3 trillion U.S.) of projected obligations to their existing populations – an amount fivefold higher than their combined gross debt. Germany and France accounted for a combined total of 14.3 trillion euros. According to a UN report, Europe has the highest proportion of population aged over 60 of any region in the world and that is forecast to increase to almost 35% by 2050 from 22% in 2009."

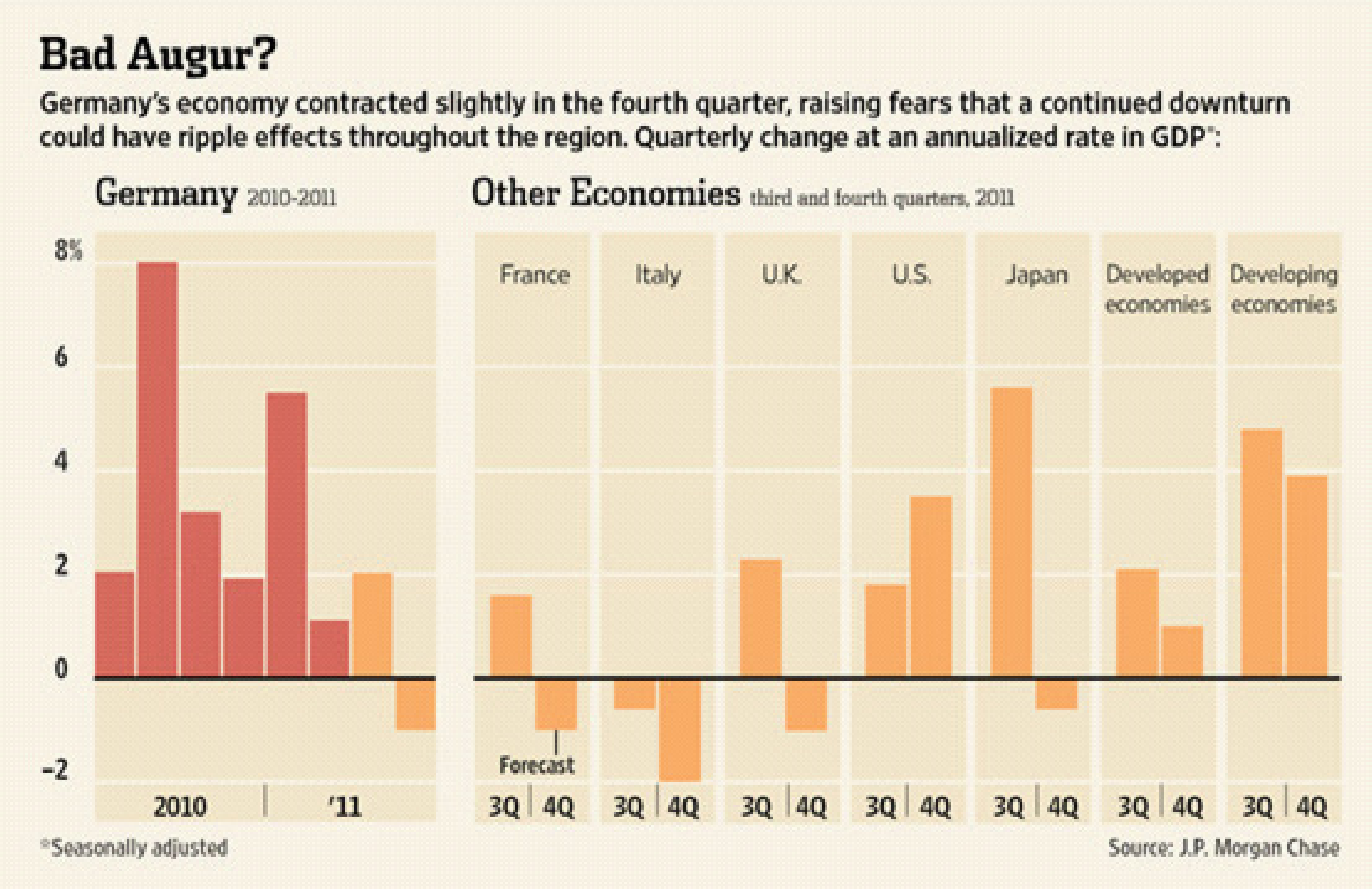
- Front Page Headline, Bloomberg News – "German Chancellor Merkel Praises Italy's Debt Cuts. At a Berlin press conference, Angela Merkel praises Italy's debt reduction steps as Italian Prime Minister Mario Monti urges investors not to view Italy as a source of contagion in the European debt crisis: 'Italians have supported very tough austerity measures … and Italy should be recognized as doing its part alongside Germany, France and other countries in steering Europe toward stability." The proof is in the pudding!

- Front Page Headline, Bloomberg News – "Fitch's Riley Urges ECB to Buy More Bonds to Stem Sovereign Debt Crisis. In a Frankfurt interview, David Riley, manager of global sovereign ratings at Fitch Ratings entreats: 'We need to have a credible buyer put in place and we don't have that at the moment, which is why we have a number of sovereign credits under review. The European Central Bank (ECB) needs to be more actively engaged, but it can't save the euro on its own. The (debt) crisis won't be over until we have a broadly-based economic recovery. We are now in a scenario, whereby the (debt) crisis is clearly systemic. Although it is not our base case, Fitch is reviewing who would be potentially vulnerable, not only to an intensification of the (debt) crisis, but also to a breakup of the European Union (EU). Frankly, the potential consequences of that would be cataclysmic. Can the euro be saved without more active engagement from the ECB? Frankly, we don't think it can. There's plenty of scope for the ECB to expand its balance sheet and potentially, increase its sovereign (credit) purchases without unleashing a wave of inflation across the euro zone."

- Front Page Headline, Daily Telegraph U.K. – "Euro Zone Softens Its Tough Fiscal Rules in New Treaty. A leaked draft of the euro zone's new treaty reveals that members must commit to keeping their deficits below 0.5% of gross domestic product (GDP) or face the European Court of Justice (ECJ). However, they will also be permitted to 'temporarily deviate from the rules in case of an unusual event, or in periods of severe economic downturn." The role of the ECJ has also been weakened in the draft. Rather than having the power to judge if countries are breaking the rules, the ECJ will be restricted to receiving complaints from other member states and imposing deadlines for nations to get their budgets back in line."

- The Federal Statistics Office estimates Germany's gross domestic product (GDP) contracted by about a 1% annualized rate in the 4th. quarter of 2011. The slowdown in global economic growth and trade is negatively impacting German exporters, while the euro zone debt crisis has reduced German business confidence.

- Front Page Headline, Globe and Mail – "Canadian Banks, OSFI Take Aim at U.S. Volcker Rule. In a recent letter delivered to U.S. authorities, Julie Dickson, Superintendent of Canada's Office of the Superintendent of Financial Institutions (OSFI) noted: 'OSFI is concerned that the draft regulations may have the unintended consequence of significantly impeding Canadian and other foreign financial institutions' ability to manage their risks in a cost-effective manner. Canadian financial institutions use American-owned infrastructure to conduct financial transactions in support of their market-making activities in Canada, and in their risk management activities more broadly in support of their Canadian and U.S. banking operations." Separately, the Canadian Bankers Association, a lobby group for the nation's lenders, also voiced concern with Volcker rule, noting the regulations' limited exemptions would victimize Canadian banks. Gadi Mayman, chief executive officer of the Ontario Financing Authority – the entity which manages the Province's borrowing – commented: 'While we don't want a repeat of 2008-2009, we also don't want to screw on the lid so tightly that the businesses of the banks providing capital for governments and corporations in Canada are constrained."



- Front Page Headline, New York Times – "For Europe, Few Options in a Vicious Cycle of Debt. The current challenge for Europe is to prevent Italy and Spain from becoming like Greece and Portugal, whose sovereign debt yields rose so high in 2011 that it signaled a real likelihood of default; making it impossible for the governments to find buyers for their debt. Since then, Greece and Portugal have been reliant upon the benevolence of the European Union (EU) and the International Monetary Fund (IMF). The sovereign debt markets continue to show signs of stress. Italy's 10-year government bond has fallen in price, forcing its yield to more than 7%, a level which shows that investors remain worried about the financial strength of Italy's government. Italy's debt troubles illustrate how difficult it is to generate demand for a deluge of new debt from a dwindling pool of investors. Italy needs to issue as much as $305 billion (U.S.) of debt this year, the highest in the euro zone. Italian banks, though large owners of their government's obligations may not want to increase their holdings, in order to keep their investors happy. Shares in UniCredit, for example, have declined more than 40% in price since last week, as the Italian bank has attempted to raise capital to comply with new regulations."

- China's inflation rate declines to a 4.1% annual rate in December, the slowest pace in 15 months and well below July's peak of 6.5%

THURSDAY, JANUARY 12TH

- Front Page Headline, Bloomberg News – "President Obama Notifies Congress to Raise Debt Ceiling by $1.2 Trillion (U.S.). President Barack Obama sends a written notification to the U.S. Congress in a formal request to raise the statutory debt limit to $16.439 trillion (U.S.), as part of an agreement last August between the White House and Congress to raise the limit in three stages. If desired, lawmakers have 15 days to consider and vote on a joint resolution disapproving of the increase. President Obama has veto power over any disapproval resolution which clears both chambers."

- The Commerce Department reports U.S. retail sales rose by only 0.1% in December, following an increase of 0.4% in November. Neil Dutta, an economist at the Bank of America in New York, commented: "A lot of the euphoria around the holiday shopping season was misplaced. The weakness in December implies that the handoff into the first quarter was weak. The savings rate is going higher and that's going to be a headwind for consumer spending."

- Front Page Headline, Globe and Mail – "EU Cheered by Success of Bond Auctions in Italy and Spain. Italy auctioned 12 billion euros of 1-year notes at a yield of 2.73%, less than half the 5.95% yield demanded by investors in mid-December. Meanwhile, Spain auctioned 10 billion euros of 3-year and 4-year bonds – double the intended size. The yield on the 2015 maturity was 3.84%, down from the 5.18% yield in a similar auction a month ago. While the yield on Italy's 10-year bonds declined by 40 basis points to about 6.60%, the new level remains firmly in dangerous territory since Italy must raise about 450 billion euros this year. Burdened with 1.9 trillion euros of debt and a debt-to-gross domestic product ratio of 120%, Italy is Europe's most indebted country. Since European banks were made privy to a 3-year, 1% loan totaling 489 billion euros ($638 billion U.S.) from the European Central Bank (ECB) last week, today's sovereign debt auctions were basically a matching exercise for them."

- Eurostat, the European Union's statistics agency, reports euro zone factory output declined by 0.1% in November on a year-over-year basis. Ben May, an economist at Capital Economics, commented: 'November's euro zone industrial production data adds evidence that the whole economy may have regressed into recession in the 4th. quarter."

- Front Page Headline, Financial Times – "U.S. Corporate Creditworthiness Declines: S&P. According to a report by Standard and Poor's, the creditworthiness of U.S. corporations has declined sharply in the last three decades as companies have assumed more debt in order to embellish returns to shareholders. The number of 'AAA' rated non-financial American companies has dropped to 4 from 61 in 1981, while groups with "junk" ratings now account for more than half the companies which S&P rates in the U.S., up from 24% … Investment grade companies which have been downgraded to junk, have contributed only a small part to the shift in U.S. corporate ratings. The main reason for the change has been a surge in newly rated junk companies. More than half first-time debt issuers had junk ratings every year since 1992, with the exception of 2001."

- The National Institute of Economic and Social Research (NIESR) estimates Britain's gross domestic product (GDP) grew by 0.1% in the 4th. quarter of 2011, compared with the 3rd. quarter. However, Chancellor of the Exchequer George Osborne insisted there were signs the U.K. economy was turning a corner: 'The government has been making the right decisions … they've laid the foundations for (economic) growth, job growth and (boosted) confidence in Britain in this important year where we host the Olympics. There are reasons to be optimistic.'

- Front Page Headline, Daily Telegraph U.K. – "RBS to Shed 4,450 Jobs after Cutbacks at Investment Bank. Global banking and markets (GBM), the division housing RBS' investment banking operations, is to be merged with large parts of the state-backed lender's global transaction banking business, as part of a cost-cutting plan already endorsed by Chancellor of the Exchequer Osborne. An additional 950 positions will be eliminated at the bank's Irish subsidiary, Ulster Bank, taking the total cuts to 4,450 jobs. The job layoffs come in addition to the 2,000 redundancies already announced at GBM, that will see the division's staff shrink from just under 19,000 to about 13,400.

FRIDAY, JANUARY 13TH

- Front Page Headline, Market Watch News – "U.S. Consumer Sentiment Highest Since May, 2011. The Thomson Reuters / University of Michigan consumer sentiment index rose in a preliminary reading to 74 in January, following a level of 69.9 in December. Paul Ashworth, a chief economist with Capital Economics commented: 'We suspect the apparent improvement in the labor market was the main driving force behind the increase; aided as well by falling gasoline prices and the recent modest rebound in stock markets. Overall, it's encouraging to see (consumer) confidence rebounding, but it doesn't compensate for yesterday's disappointing news on actual retail sales."

- Front Page Headline, Market Watch News – "Greek Debt Talks Break Down. Talks between private creditors and the Greek government, regarding a voluntary restructuring of Greek sovereign debt broke down today, with negotiators representing the private sector citing 'a lack of a constructive, consolidated response by all parties.' An agreement of a proposed 50% 'haircut' on the value of Greek debt held by the private sector is a prerequisite for Athens to receive further bailout funds from the International Monetary Fund (IMF) and the European Union (EU), which was secured as part of a second bailout agreement reached last October. Charles Dallara and Jean Lemierre, Co-Chairs of the Steering Committee of the Private Creditor-Investor Committee released a statement: 'Under the circumstances, discussions with Greece and the official sector are paused for reflection on the benefits of a voluntary approach. However, we very much hope that Greece, with the support of the euro area, will be in a position to constructively reconnect with the private sector, with a view to finalizing a mutually acceptable agreement on a voluntary debt exchange consistent with the October agreement and in the best interests of both Greece and the euro area."

- Front Page Headline, Bloomberg News – "S&P Cuts Nine Euro Sovereign Ratings, Affirms Seven. In a list of sovereign credit rating downgrades, Germany emerges as the euro area's only 'AAA' rated nation with a stable outlook, as Standard & Poor's warns: 'In our view, the policy initiatives taken by European policy makers in recent weeks may be insufficient to fully address ongoing systemic (debt) stresses in the euro zone. Those challenges include tightening credit conditions, rising risk premiums, a slowing (euro zone) economy and an open and prolonged dispute among European policy makers regarding how to tackle their (debt) problems."

Country	New Rating / Outlook		Prior Rating /Outlook	
Austria	AA (High)	Negative	AAA	Stable
France	AA (High)	Negative	AAA	Stable
Germany	AAA	Stable	AAA	Stable
Finland	AAA	Negative	AAA	Stable
Netherlands	AAA	Negative	AAA	Stable
Luxembourg	AAA	Negative	AAA	Stable
Italy	BBB (High)	Negative	A (Low)	Negative
Slovak Rep.	A	Stable	A (High)	Negative
Spain	A	Negative	A (High)	Negative
Portugal	BB	Negative	BB (High)	Negative
Cyprus	BB (High)	Negative	BBB (Low)	Negative
Malta	A (Low)	Negative	A	Negative
Slovenia	A (High)	Negative	AA (Low)	Negative
Ireland	BBB (High)	Negative	BBB (High)	Stable
Belgium	AA	Negative	AA	Stable
Estonia	AA	Negative	AA	Stable

- The Commerce Department reports the U.S. trade deficit expanded by 10.4% to $47.8 billion (U.S.) in November – the widest since June – following a $43.3 billion (U.S.) shortfall in October. The U.S. import bill was driven by demand for higher priced crude oil while simultaneously, American companies tempered orders for consumer goods. U.S. exports declined to a 4-month low, depressed by a decline in shipments to Europe.

- Front Page Headline, Bloomberg News – "China's Gold Hoarding Turns More Traders Bullish. Gold traders are the most bullish in two months after China imported a record amount of gold bullion from Hong Kong and investors purchased U.S. gold coins at the fastest pace in more than two years. In a Bloomberg survey, 18 of 20 gold traders expect gold to move higher in price next week, the highest proportion since November 11th. Recent trade data revealed China imported 102.8 metric tons of gold in November, valued at $5.4 billion (U.S.). Meanwhile, the U.S. Mint reported sales of 85,500 ounces of American Eagle gold coins in the first 12 days of January.

- Front Page Headline, Globe and Mail – "BMO Promotion Prompts Rival Banks to Lower Mortgage Rates. The Bank of Montreal announces a two-week promotion initiative of a five-year fixed mortgage rate of 2.99%, which spurs the Royal Bank of Canada and Toronto Dominion/Canada Trust to follow suit with limited time offers of their own.

- Front Page Headline, Financial Times – "German Chancellor Merkel Urges Euro Zone to Act Quickly. On the heels of Standard and Poor's (S&P) downgrading of the credit ratings of France and Austria – plus seven other second-tier euro zone sovereign credits – German Chancellor Angela Merkel implores euro zone governments to implement new EU rules outlined in December. Chancellor Merkel stressed: "Governments must activate as quickly as possible" the 500 billion euro European Stability Mechanism, currently scheduled to succeed the old European Financial Stability Fund (EFSF) by mid-year."

- Front Page Headline, The Slog – "Greek Debt Crisis: Yet More Franco-German Hypocrisy. Thousands of Greeks are living on the streets, doctors in Athens' hospitals are handling only emergencies, bus drivers are on strike, schools are still short of textbooks, thousands of state employees are protesting against against their dismissal and every household has endured a 20% surcharge on electricity bills. However, the Greek military has survived (austerity measures) unscathed … thanks to Franco-German pressure. This is because, according to the recently released German Arms Exports report for 2010, after the Portuguese – also a near technically insolvent European Union (EU) member – the Greeks are the German armaments industry's most valued clients. During 2010, Greece purchased a whopping 223 howitzers and a submarine from Germany … 403 million euros worth: in any other field of business, the Troika of Brussels, the International Monetary Fund (IMF) and the (Greek) bondholders would have rejected such a ridiculous expenditure out of hand …

- In 2010, the Greek Defence budget was cut by a mere slither of 0.2%. The welfare budget declined by a much bigger percentage and a lot more money: 1.8 billion euros … When referring to the (Greek) military during that year, the mealy-mouthed Foreign Ministry in Berlin offered this press release to a bewildered world: 'The German government supports the policy of consolidation of Greek Prime Minister Papademos. The government's guiding assumption is that the Greek government will, on its own responsibility, contemplate meaningful cuts in (its) military spending. The German government has expressed its fundamental expectation that (Greek) military contracts will be fulfilled.' Under the circumstances, one would have thought that there might have been a waiver on that 'fundamental expectation,' given that the founding members of the European Union 'contemplate meaningful cuts in defence spending,' but, apparently not."

CLOSING LEVELS FOR FRIDAY, JANUARY 13TH.		WEEKLY CHANGE
Dow Jones Industrial Average	12,244.06	– 115.86 points
Spot Gold Bullion (February)	$1,630.80 (U.S.)	+ $14.00 per oz.
S&P / TSX Composite	12,231.06	+42.42 points
10-Year U.S. Treasury Yield	1.86%	– 10 basis points
Canadian Dollar	97.78 cents (U.S.)	+ 0.41 cent
U.S. Dollar Index Future (Spot Price)	81.46 cents	+ 0.21 cent
WTI Crude Oil (February)	$98.70 (U.S.)	– $2.86 per barrel

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