

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



Monday, February 6th

Front Page Headline, MarketWatch News – “EU Informs Greece: Strike an Agreement or Else. European Union leaders pressure Greece to agree to additional austerity measures in order to implement a second international rescue package, warning that

MONDAY, FEBRUARY 6TH

failure to act may lead to a debt default that could drive the country out of the euro zone. Greek party leaders were resisting demands for additional austerity measures from Greece’s ‘troika’ of international creditors, particularly private sector wage cuts, as a weekend of marathon negotiations failed to achieve a final agreement.

- Front Page Headline, Washington Post – “Russia, China Veto U.N. Resolution on Syria. On Saturday, Russia and China vetoed a U.N. resolution condemning Syria’s violent repression of anti-government demonstrators. The veto dealt a blow to attempts by the United States and its European partners to rally behind an Arab League plan that would require Syrian President Assad to yield power and pave the way for a democratically elected unity government. Susan E. Rice, U.S. Ambassador to the United Nations reacted: ‘The United States is disgusted by the Russian and Chinese vetoes. A couple of council members remain steadfast in their willingness to sell out the Syrian people and shield a craven tyrant.’”
- Front Page Headline, Washington Post – “Queen Elizabeth II Renews Pledge to Serve Britain. Her Majesty Queen Elizabeth II celebrates her Diamond Jubilee with a message thanking all those who had supported her over her 60-year reign and reaffirming her dedication to the British people: ‘I am writing to thank you for the wonderful support and encouragement that you have given to me and Prince Philip over these years. In this special year, as I dedicate myself anew to your service, I hope that we

will all be reminded of the power of togetherness and the convening strength of family, friendship and good neighbourliness, examples of which I have been happy to see during my reign.”

- Front Page Headline, Washington Post – “Thousands of Russians Demonstrate Against Putin. Braving bitterly cold weather, tens of thousands of Russians marched near the Kremlin on Saturday, demonstrating their determination to maintain the pressure on Prime Minister Vladimir Putin for fair elections and honest government. Referring to the country’s leadership, one group chanted: ‘The longer we freeze here, the longer they’ll freeze in Siberia.’”



Source: Ivan Sekretarev/AP



Portuguese representative Jose Filipe Moraes Cabral, left, and South African representative Baso Sangqu, right, glance at Russian representative Vitaly Churkin, center, as they vote in support of the Arab League draft resolution. Source: Jason DeCrow/AP

- The Economics Ministry reports German manufacturing orders rose by 1.7% on a seasonally adjusted basis in December, citing: 'a considerable increase in foreign orders, which were up by a seasonally adjusted 4.3% on the month, after falling by 7.8% in November.' Annalisa Piazza, a strategist at Newedge in London commented: 'While German orders data are very volatile, the latest figures seem to suggest that factory activity has not collapsed, despite the foreign demand slowdown in the 4th. quarter.'
- The British Retail Consortium (BRC) reports U.K. same-store sales (retail outlets which have been open for at least a year) declined by 0.3% on a year-over-year basis in January, following a 2.2% increase in December and compared with a 2.3% gain reported in January 2011. BRC Director General Stephen Robertson commented: "As 2012 gets underway, it's clear people don't feel any better about the immediate future than they did 12 months ago. Customers parked their worries in December and spent, encouraged by discounts. Now, in the New Year, reality has set in again as concerns about jobs, wages and household costs reassert themselves."
- Front Page Headline, New York Times – "Greece to Eliminate 15,000 Government Jobs. According to data released by Eurostat – the European Union's statistical agency – Greece's debt rose to 159.1% of gross domestic product (GDP) in the 3rd. quarter of 2011 from 138.8% in the same period of 2010. Despite the above, Greece has agreed to cut 15,000 state jobs this year as part of new austerity measures it intends to adopt to secure new debt agreements from international lenders. Athens is racing to implement economic changes that will persuade its private sector creditors to grant easier debt repayment terms and prompt the EU to release 130 billion euros (\$171 billion U.S.), in the next round of bailout money it needs to avoid defaulting on bond issues maturing on March 20th. Greece's negotiations with its creditors continue, even as the austerity measures already in place were making it increasingly difficult for the Greek economy to outrun the country's mounting debt burden."
- The Canadian Real Estate Association (CREA) reports the multiple listings service (MLS) home price index rose by 5.2% in January, on a year-over-year basis. At present, the MLS Index covers about 44% of the Canadian real estate market. CREA President Gary Morse commented: "The introduction of the MLS Index will provide clients and realtors with a more timely and accurate gauge of home values in a number of major markets across the country."



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- The Wiesbaden-based Federal Statistics Office reports German exports declined by 4.3% in December, following a 2.6% increase in November. Ulrike Rondorf, an economist at Commerzbank AG in Frankfurt, commented: “The global economy appears to be gaining some traction ... but exports from the euro zone will remain weak and are clearly a risk.”
- Front Page Headline, Globe and Mail – “Canada’s Future Resides in the West: Census 2011. The results of Canada’s 2011 census confirm that power and population are shifting to the Prairies and British Columbia, as Ontario enters a period of relative economic decline. Oil, gas, potash and other natural resources are drawing migrants and as a result, the region’s political and economic influence is growing. Alberta and Saskatchewan are attracting both immigrants and native-born Canadians to the oil fields and resource industries. Canada is the fastest growing country in the Group of 8 nations, with its population growing by 5.9% to 33.5 million since the previous census in 2006.
- Canada Mortgage and Housing Corp. (CMHC) reports Canadian housing starts declined to a seasonally adjusted annual pace of 197,900 units in January, compared with a revised 199,100 units in December, previously reported as 200,200, citing a slowdown in the multiple unit segment which accounted for most of the weakness
- Front Page Headline, Globe and Mail – “Harper Hails Strategic Importance of China Agreement. On a state visit to China, Canadian Prime Minister Stephen Harper exhorted: ‘The conclusion of 18 years of talks with the Chinese government for a foreign investment protection agreement (FIPA) marks an historic step forward in Canada-China relations. My sense is the willingness of the Chinese to conclude this agreement, indicates to me that they do put increasing strategic importance on two-way investment between our countries.’ The FIPA gives foreign investors assurances they’ll be treated the same as domestic companies and allows for arbitration at an international tribunal body in disputes. Specific details of the FIPA were not released. It still must undergo a legal review by both countries and be ratified before it can come into force.”



Chinese Premier Wen Jiabao invites Canadian Prime Minister Harper to review an honour guard.

Source: Alexander F. Yuan/AP

- Front Page Headline, Globe and Mail – “OSC Unveils Sweeping Insider Trading Case. The Ontario Securities Commission announces an allegation charging Goldcorp Inc. Chairman Ian Telfer helped disguise ownership of some shares to assist an old friend who is now at the centre of an insider trading and tipping scheme. The OSC’s case is focused on Eda Marie Agueci, executive assistant to the chairman of brokerage firm GMP Securities LP, who is alleged to have used her position at the firm to learn about forthcoming corporate underwritings. The OSC alleges Ms. Agueci set up brokerage accounts to trade on the information before it was made public, then tipped a network of friends, relatives and business contacts about the deals so they could also purchase shares. The OSC alleges the trading scheme yielded profits of \$962,000 (CAD) for eight people involved in buying shares.”
- Front Page Headline, Globe and Mail – “U.K. Firm Joins Race to Export Natural Gas from B.C. British natural gas giant BG Group PLC has joined the list of companies swarming Canada’s West Coast in hopes of exporting energy to Asia. The company – a global liquefied natural gas supplier – is looking to Prince Rupert, B.C. as a potential site for a terminal that could be used to load Western Canadian natural gas onto ships bound for consumers in Japan, China and South Korea. David Byford, a Houston-based spokesman with BG Group, commented: ‘We’ve entered into an agreement with the Prince Rupert Port Authority to consider the feasibility of an LNG development.’ BG brings to six the total number of companies and groups publically pursuing liquefied natural gas (LNG) projects on the British Columbia coast, near prolific shields of shale gas. Faced with gas prices now at decade lows, North America’s energy industry has looked to LNG as a way to access Asian markets, where gas prices are much higher.”

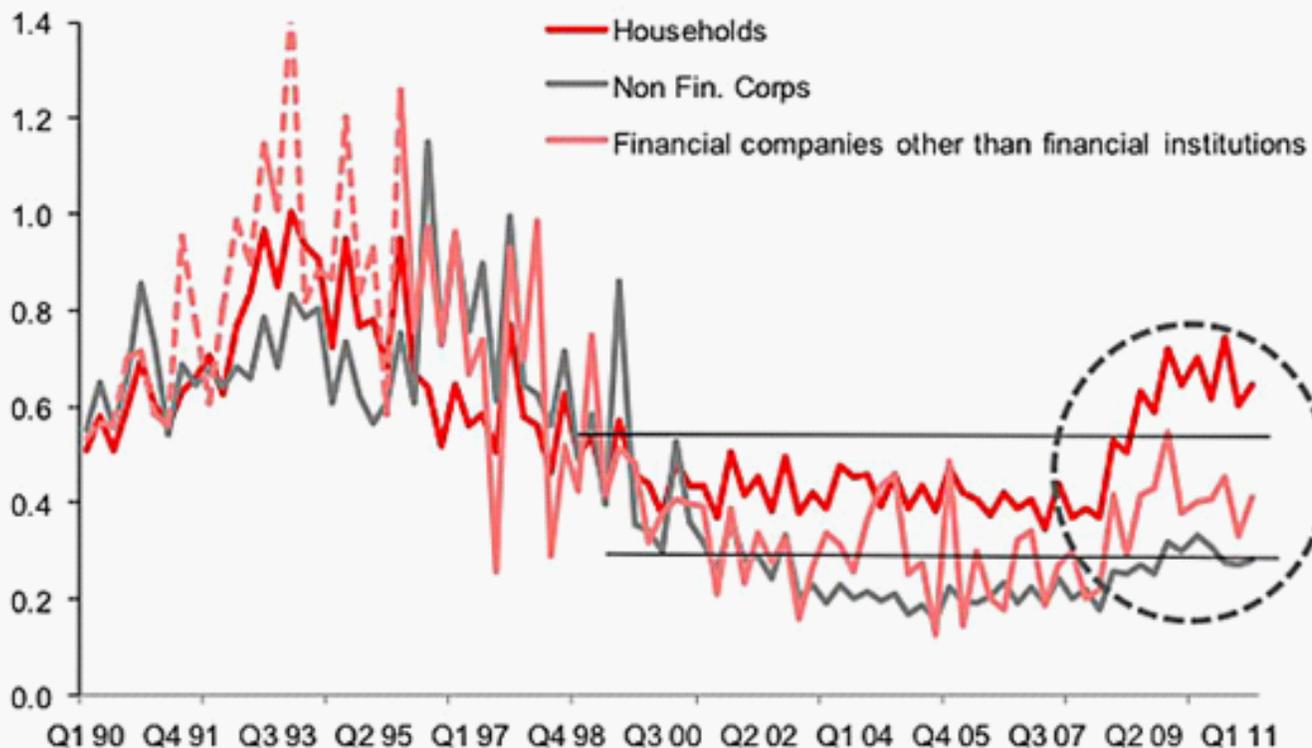


The Port of Prince Rupert where BG PLC has secured access to 200 acres on the Ridley industrial site.

Source: The Prince Rupert Port Authority

- Front Page Headline, The Business Insider – “Four New Worrying Signs in Italy. Despite new Prime Minister Mario Monti’s efforts, Italy’s outlook hasn’t improved since he took office ... While Italian government bonds have been recovering in response to the European Central Bank’s (ECB) successful 3-year liquidity operation, the country’s output has been contracting, unemployment has been rising and banks are becoming more strict about lending. Accordingly, Societe Generale analyst Vladimir Pillonca has identified four worrying signs to monitor:
  1. Non-performing loans have been rising sharply ... and access to credit has been tightening.
  2. Italy’s gross domestic product (GDP) contracted by 0.2% in the 3rd. quarter of 2011, led by a decline in domestic demand ... For the year 2012, SocGen expects GDP to contract by 1.6%.
  3. While Italian policy making has improved under Monti, the country is still resisting structural changes. Labour reform has been the most divisive.

### Chart 3: NPLs are rising already – and that’s before the recession has even started



Sources: Bank of Italy, SG Cross Asset Research, Economics. Note: percent of non-performing loans as % of total loans

4. Easing sovereign debt funding pressures have presented Italy with a window of opportunity to recover its (economic) growth rate. However, as the (euro zone) economic slowdown deepens, that window will begin to close.

Outlined above: a SocGen chart showing the sharp rise in Italian non-performing loans.

- Front Page Headline, New York Times – “Nokia to Cut 4,000 Jobs at Three Factories. Nokia, the largest maker of mobile phones by volume, announces it will eliminate 4,000 manufacturing jobs –7% of its global work force – as it streamlines operations and aims to save money from its production of smartphones. The company stated the downsizing would occur at three Nokia factories – in Komárom, Hungary; Reynosa, Mexico; and Salo, Finland – as it transfers the assembly of smartphones to factories in Asia, which are closer to component makers. Executive Vice President Niklas Savander elaborated: ‘Shifting device assembly to Asia is focused upon improving our time to market. By working more closely with our suppliers, we believe that will enable us to introduce innovations into the market more quickly and ultimately improve our competitiveness.’”

#### THURSDAY, FEBRUARY 9TH

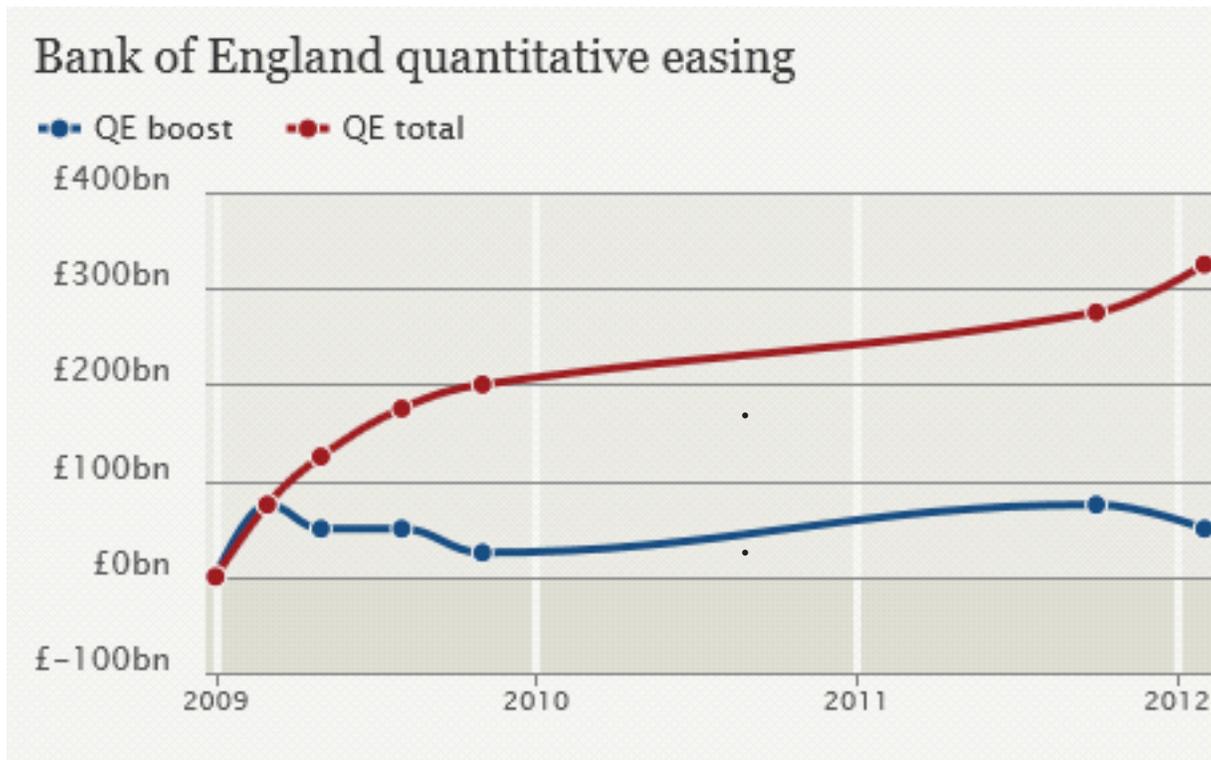
- Front Page Headline, MarketWatch News – “House Passes Ban on Congressional Insider Trading. By a vote of 417 to 2, the U.S. House of Representatives passes legislation to curtail insider trading of securities by lawmakers and officials of the executive branch, which included a provision inspired by the husband of House Minority Leader Nancy Pelosi. The legislation prohibits lawmakers and their families and staffs from buying and selling securities based upon their possession of private information. It is unclear when President Obama will sign the legislation into law.”
- Front Page Headline, MarketWatch News – “Banks, States Reach \$26 billion (U.S.) Foreclosure Agreement. After more than a year of negotiations, state and federal government officials announce a record \$26 billion (U.S.) housing settlement – involving five of the country’s biggest banks – over foreclosure abuses, an agreement expected to assist over one million American homeowners. In a press conference, U.S. President Barack Obama commented: ‘These banks will put billions of dollars towards relief for families across this nation. It will deliver some measure of justice to families who have already been the victims of abusive practices.’”

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 15,000 in the week ended February 4th. to 358,000.
- Front Page Headline, Globe and Mail – “Greece Commits to Cut Wages, Jobs in 11th. Hour Agreement. The tentative agreement with the International Monetary Fund (IMF) and the European Central Bank (ECB) would see the Greek private sector minimum wage cut by 22% and the elimination of as many as 150,000 government jobs by 2015. However, euro zone finance ministers dismissed the agreement as incomplete and dispatched Greece’s Finance Minister Evangelos Venizelos back to Athens with a fresh set of demands and an urgent deadline. In exchange for signing off on the 130 billion euro bailout, Greece’s lenders are demanding 325 million euros in further cuts to this year’s budget, parliamentary ratification of a sweeping reform package and a pledge from the country’s political leaders to ensure that they will maintain their commitment after April elections. They also warned of more intensive involvement in the Greek economy to improve tax collection and accelerate the sale of state owned assets. Jean-Claude Juncker, the Prime Minister of Luxembourg declared: ‘In short, there is no disbursement before implementation.’”
- Front Page Headline, Daily Telegraph U.K. – “Greek Death Spiral Accelerates. The Hellenic Statistical Authority reports:
  1. Greece’s manufacturing output contracted by 15.5% in December on a year-over-year basis
  2. Industrial output declined by 11.3% in December, following a drop of 7.8% in November
  3. The unemployment rate rose to 20.9% in November, up from 18.2% in OctoberInternational Business Editor Ambrose Evans-Pritchard explains: ‘This is what can happen if you join a fixed exchange system, then take out very large debts in what amounts to a foreign currency, and then have simultaneous monetary and fiscal contraction imposed upon you. Germany discovered this (while) on the gold standard, when it increased external debt from 1925 to 1929 (owed to American bankers) in much the same way as Greece has done. When the U.S. Federal Reserve raised the Fed Funds rate in 1928 and onwards, Germany blew apart in much the same way as Greece is today.’”
- Front Page Headline, Daily Telegraph U.K. – “Bank of England Injects 50 Billion Pounds into Economy. The Bank of England’s Monetary Policy Committee votes to increase its quantitative easing (bond buying) program by 50 billion pounds, which will take the total assets purchased to 325 billion pounds since the process began in March 2009. The bank justified its decision

against a backdrop of a weak economy, an uncertain (economic) outlook for the euro zone and a declining U.K. inflation rate. The Bank stated: ‘Without additional stimulus, inflation was more likely to fall below the 2% target in the medium term. In the U.K. the underlying pace of (economic) recovery slowed during 2011, with activity declining slightly during the final quarter. Some recent business surveys have painted a more positive picture and asset prices have risen. However, the pace of (economic) expansion in the U.K.’s main export markets has also slowed and remains a concern.’ Chancellor of the Exchequer George Osborne added: ‘The quantitative easing policy has supported the U.K. economy and fostered an expansion. Monetary policy has played a critical role in conjunction with the government’s austerity plans, in an attempt to cut the deficit.’

rental market. There are an additional one million foreclosed properties which could be held by banks, guarantors and servicers in each of the next few years. The number of properties in the foreclosure process is more than four times the number of foreclosed properties owned by banks, Fannie Mae, Freddie Mac and the Federal Housing Administration (FHA).”

- Front Page Headline, Bloomberg News – “Obama Budget Projects \$901 Billion (U.S.) Deficit for Fiscal 2013. Administration officials brief reporters on the budget document set for release on Monday, February 13th. citing: ‘President Barack Obama will revive proposals for \$1.5 trillion (U.S.) in tax increases, as well as spending to create jobs; as part of a fiscal 2013 budget that projects a deficit of \$901 billion (U.S.). The tax increases



Source: Daily Telegraph U.K.

FRIDAY, FEBRUARY 10TH

- Front Page Headline, MarketWatch News – “Bernanke Renews Push for Foreclosed Rentals. In a speech to the National Association of Home Builders conference in Orlando, Federal Reserve Chairman Ben Bernanke suggests: ‘With home prices falling and rents rising, it could make sense in some markets to convert some of the foreclosed homes into rental properties ... thereby, helping cure the market’s serious imbalances where there is an excess supply of vacant homes and an expanded

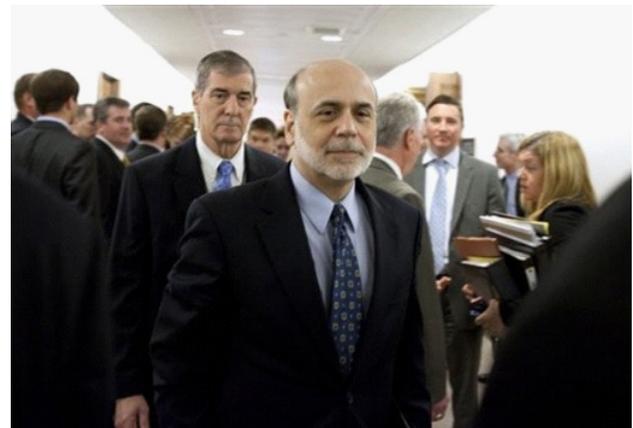
would mostly fall upon the wealthy, via a new 30% minimum tax on those earning more than \$1 million (U.S.) annually, allowing Bush-era tax cuts to expire for families taking home more than \$250,000 (U.S.) and capping the value of itemized deductions for top earners. Taxes would also increase through a Financial Crisis Responsibility Fee, not only for large financial institutions, but also, for oil, gas and coal companies. President Obama is seeking \$350 billion (U.S.) for short-term job measures, including additional infrastructure spending, extending unemployment benefits and increasing aid to cash-strapped state governments. The President would also extend an expiring payroll tax break for the rest of this year. The budget targets scarce federal re-

resources to areas critical to growing the economy and restoring middle-class security.”

- The Thomson Reuters/University of Michigan preliminary index of consumer sentiment declined to a reading of 72.5 in February, following a level of 75.0 in January, citing concerns about wage stagnation and rising gasoline prices
- The Commerce Department reports the U.S. trade deficit widened by 3.7% to \$48.8 billion (U.S.) in December, from \$47.1 billion (U.S.) in November, citing record import demand for capital equipment, such as machinery and semiconductors
- The Office for National Statistics reports U.K. producer prices rose by 0.5% in January, citing higher prices for clothing, alcohol and petroleum products
- Front Page Headline, Globe and Mail – “S&P Downgrades 34 Italian Banks. Rating agency Standard & Poor’s downgrades 34 Italian banks including UniCredit SpA and Intesa Sanpaolo SpA. In a statement, S&P elaborated: ‘Italy’s vulnerability to external financing risks has increased, given its high external public debt, resulting in Italian banks’ significantly diminished ability to roll over their wholesale debt. We anticipate persistently weak profitability for Italian banks in the next few years, and a risk-adjusted return on core banking products that may not be sufficient for banks to meet their cost of capital. We believe this may be negative for the Italian banking industry’s stability.’”
- Front Page Headline, Daily Telegraph U.K. – “Greece’s Prime Minister Warns of Uncontrolled Chaos if Country Defaults. Lucas Papademos struggled to maintain order in parliament ahead of Sunday’s crucial vote on the budget plans which the Prime Minister must win in order to secure Greece’s 130 billion euro bailout. Five ministers resigned in protest over the budget plans, which include tough spending and pension cuts, which were approved on Thursday by political party leaders. George Karatzaferis, leader of the Greek coalition far right, walked out of the national unity government stating he would refuse to vote on Sunday: ‘Humiliation was imposed upon us. I will not tolerate this ... no matter how hungry I might be. Greece cannot and must not be outside the European Union. However, it can do without the German boot.’ Accordingly, we presume that what the world is currently witnessing must be controlled chaos



Daily Telegraph U.K.



Federal Reserve Chairman Ben Bernanke  
Source: Money Magazine

CLOSING LEVELS FOR FRIDAY, FEBRUARY 10TH.		WEEKLY CHANGE
Dow Jones Industrial Average	12,801.23	– 61.00 points
Spot Gold Bullion (March)	\$1,725.30 (U.S.)	– \$15.00 per oz.
S&P / TSX Composite	12,389.42	– 187.86 points
10-Year U.S. Treasury Yield	1.99%	+ 7 basis points
Canadian Dollar	99.72 cents (U.S.)	– 0.92 cent
U.S. Dollar Index Future (Spot Price)	79.015 cents	+ 0.073 cent
WTI Crude Oil (March)	\$98.67 (U.S.)	+ \$0.83 per barrel

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