

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



Monday, February 13th

The Australian Statistics Bureau reports residential mortgage approvals rose by 2.3% to 48,453 in December – the most in nearly two years – from a November increase of 1.8%

MONDAY, FEBRUARY 13TH

- In a new report, Canada Mortgage and Housing Corp. (CMHC) forecasts: “Canada’s housing market should remain steady in 2012 and 2013 with low mortgage rates and a moderately expanding economy keeping price corrections at bay.” The crown corporation – which insures Canadian mortgages – has embraced a consistently rosier view of the housing market than many private sector forecasters. According to the Globe and Mail, Canadian banks have recently issued reports probing the consequences of cheap credit and trying to predict whether there is a bubble in house prices that will eventually pop and cause house prices to crash. They are particularly concerned about Vancouver and Toronto, where some have predicted price corrections of up to 10% because of over building in the condo market.
- Front Page Headline, Daily Telegraph U.K. – “Greek Parliament Approves Bailout but German Doubts Remain. The Greek Parliament approves a deeply unpopular austerity bill to secure a second 130 billion euro bailout amid a weekend of civil unrest and mass demonstrations. German Foreign Minister Guido Westerwelle has described the austerity measures as ‘a first significant step along the right road. However, the actual difficult work with implementing the reforms which have been agreed upon is only just beginning now. That is the decisive precondition for Germany and the other euro partners being able to stand by Greece with a further rescue package.’ Athens must detail where it will find an extra 325 million euros of cuts demanded

last week by euro zone finance ministers. A spokeswoman for Germany’s finance ministry has indicated that the final approval of the new 130 billion euro bailout for Greece won’t be forthcoming until early March.”



Greek demonstrators in Athens on Sunday.
Source: Daily Telegraph U.K.

- The Cabinet Office reports Japan’s gross domestic product (GDP) contracted at a 2.3% annualized rate in the 4th. quarter of 2011, following a revised gain of 0.7% in the 3rd. quarter. Yoshi-masa Maruyama, chief economist at Tokyo-based Itochu Corp. (8001) commented: “The decline in the GDP was mainly due to weak exports, exacerbated by slowing global demand and the (factory production) impact of the Thai floods. The Bank of Japan may reserve additional easing (in monetary policy) for any successive yen gains and a deterioration in economies abroad.”



Containers are stacked at a shipping terminal in Tokyo.
Source: Haruyoshi Yamaguchi / Bloomberg

- Front Page Headline, Globe and Mail – “U.S. President Barack Obama Sends Budget Proposals to Congress. As was announced by the White House last week, President Obama’s \$3.8 trillion (U.S.) budget proposal for the fiscal year ending September 30, 2013, is designed to cut the deficit by \$4 trillion (U.S.) in ten years through spending restraints and higher taxes imposed upon the wealthy ... Republicans are rabidly opposed to higher taxes and believe the only way to cut government deficits is to slash the heavy burden of social programs, particularly the federal Medicare health insurance program for Americans at age 65.
- Front Page Headline, Globe and Mail – “U.S. on Thin Ice with Deficit and National Debt: Capital Economics. In an interview with the Globe and Mail, Paul Ashworth, Chief North America Economist at Capital Economics in Toronto, comments on his recent report entitled: ‘Are America’s Fiscal Prospects Even Worse than Europe’s?’ Outlined below are some excerpts from that interview.

You’ve raised the sensitive question of whether the U.S. is immune to the (financial) problems that have befallen Greece, Ireland and Portugal.

It is immune at the moment because its borrowing costs (read: its Treasury yields) are low. The U.S. has a number of advantages, but they’re not advantages which mean you can put off that day (of rising interest rates) forever. It’s quite possible that at some point the U.S. will see its borrowing costs (read: its Treasury yields) rise.

How long will it take for the U.S. debt to reach a crisis level?

This is an absolutely impossible question to answer ... A lot of this is about confidence. Once investors lose confidence in a government’s ability to repay its (outstanding) debts, things can go south pretty quickly. Indeed, at Longwave Analytics, with the U.S. national debt likely to exceed \$16.4 trillion (U.S.) by the end of 2012, we believe the American debt situation has already reached the crisis stage.

Can the U.S. grow its way out of its debts?

This is a difficult one. Obviously, it hasn’t happened so far ... even if we get stronger economic growth (in the U.S.) it’s still going to be hard to get at the debt level because it’s now 70% of GDP. From Longwave Analytics, the answer to this question is a simple NO!

Can austerity (measures) solve the budget crisis?

It can but the problem is that austerity itself can damage economic performance. Nowhere is that more obvious than in Greece ... Italy and the United Kingdom. Certainly, you would want to avoid a hard landing.

TUESDAY, FEBRUARY 14TH

- The Labor Department reports U.S. retail sales rose by 0.4% in January, while core retail sales – excluding automobiles, gasoline and building materials – increased by 0.7%. The December sales figure was downwardly revised to unchanged, having been previously reported as a gain of 0.1%.
- Front Page Headline, Wall Street Journal – “Bank of Japan Announces Quantitative Easing, Sets Inflation Target. Following a two-day meeting of its policy board, the Bank of Japan (BOJ) announces a 10 trillion yen (\$129 billion U.S.) expansion in its asset purchase program, taking the total to 65 trillion yen. In addition, the BOJ has set an annual inflation rate target of 1% for consumer prices. BOJ Governor Masaaki Shirakawa commented: ‘The BOJ never succumbs to political pressure when it implements monetary policy, although it does listen to a wide range of opinions, including discussion in the parliament and among economists and market participants.’”

Death to Deflation

The Bank of Japan's immediate goal is for consumer prices to rise at a 1% annual rate; CPI, year-on-year change



Source: Factset
The Wall Street Journal

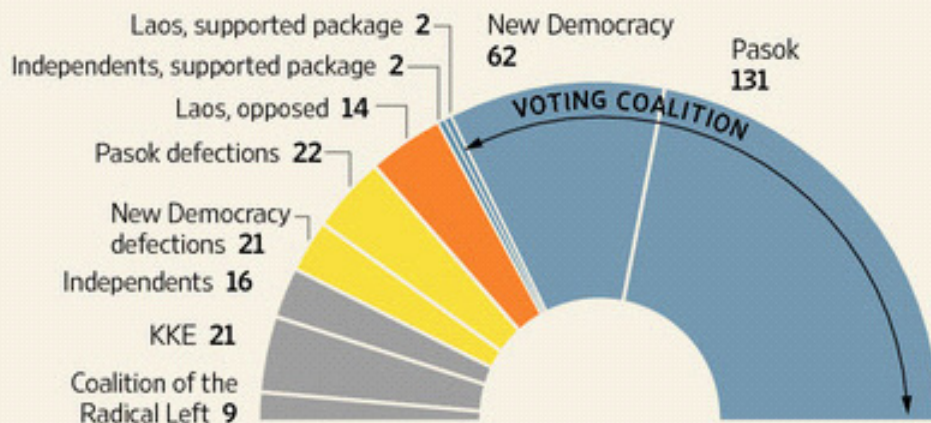
- Front Page Headline, Bloomberg News – “Moody’s Downgrades Sovereign Debt Credit Ratings of Six Countries. Spain was downgraded to A3 from A1, Italy to A3 from A2 and Portugal to Ba3 from Ba2, all with negative outlooks. Slovakia, Slovenia and Malta also had their ratings lowered. Alistair Wilson, chief credit officer for Europe at Moody’s in London commented: ‘Policy makers have taken steps forward, but we do not think they have done enough to reassure the (bond) market that we are on a stable path. What will guide the long-term ratings is the clarity and the performance of policy makers and the macro picture.’ In the U.K., Chancellor of the Exchequer George Osborne issued a statement: ‘Our fiscal consolidation program is the only thing stopping Britain from an immediate (credit rating) downgrade. This is proof that in the current global situation, Britain cannot waver from dealing with its debts.’”

Shrinking Coalition

Sunday’s vote by Greece’s Parliament on the latest austerity plan has caused more splintering and dissent in the country’s coalition government.

Parliamentary seats after the vote on the austerity package

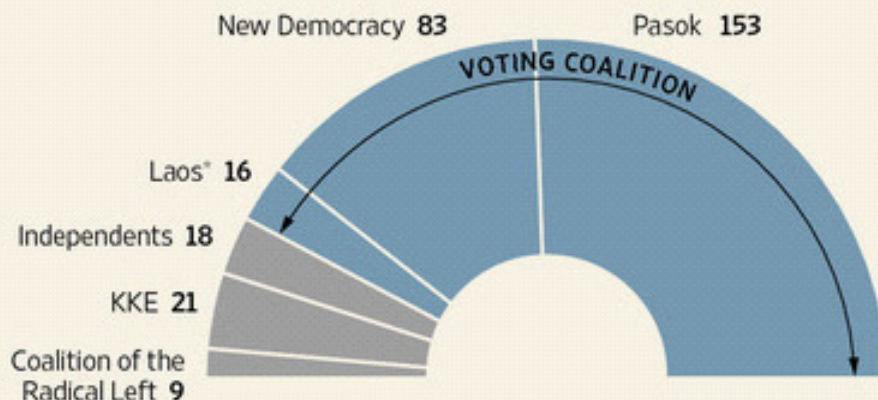
- Voted for package
- Walked out
- Rejected package breaking with party
- Voted against



Seats before the vote on the austerity package

⊗Laos ultimately leaves the coalition
Sources: Hellenic Parliament (prevote makeup of Parliament); WSJ reporting

The Wall Street Journal



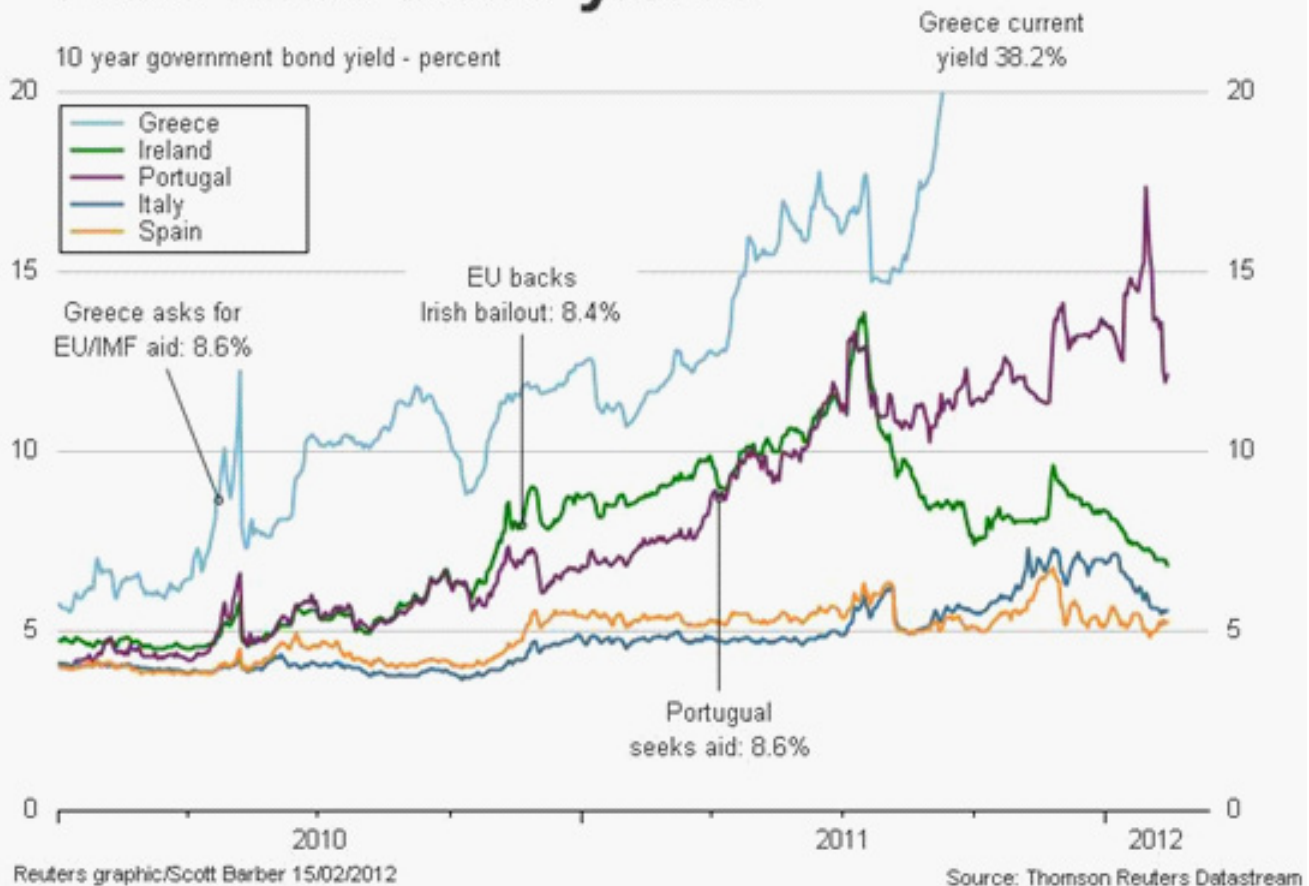
- Front Page Headline, Wall Street Journal – “Greek, Portuguese Economies Shrink Further. Greece’s statistics agency reports the country’s gross domestic product (GDP) declined by 7% in the 4th. quarter on a year-over-year basis, bringing the total GDP decline since the end of 2007 to more than 16%. Meanwhile Portugal’s GDP decline was more modest in the last quarter – down 2.7% from a year ago. Some economists expect Portugal’s GDP to contract by as much as 3.5% this year.”
- Front Page Headline, Financial Times – “EU Divisions Threaten Bailout for Greece. Euro zone officials have cancelled an emergency meeting of finance ministers to approve a vital 130 billion euro bailout for Athens, amid a growing argument among Greece’s European creditors concerning the merits of permitting Greece to declare bankruptcy. Luxembourg Prime Minister Jean-Claude Juncker explained: ‘The delay in Wednesday’s scheduled meeting has been prompted by the continued failure of Greece’s political leaders to commit to the bailout’s tough terms post Greece’s April elections.’ Moreover, today’s meeting of senior officials from euro zone finance ministries evolved into a widening gulf over whether Athens should be trusted with a

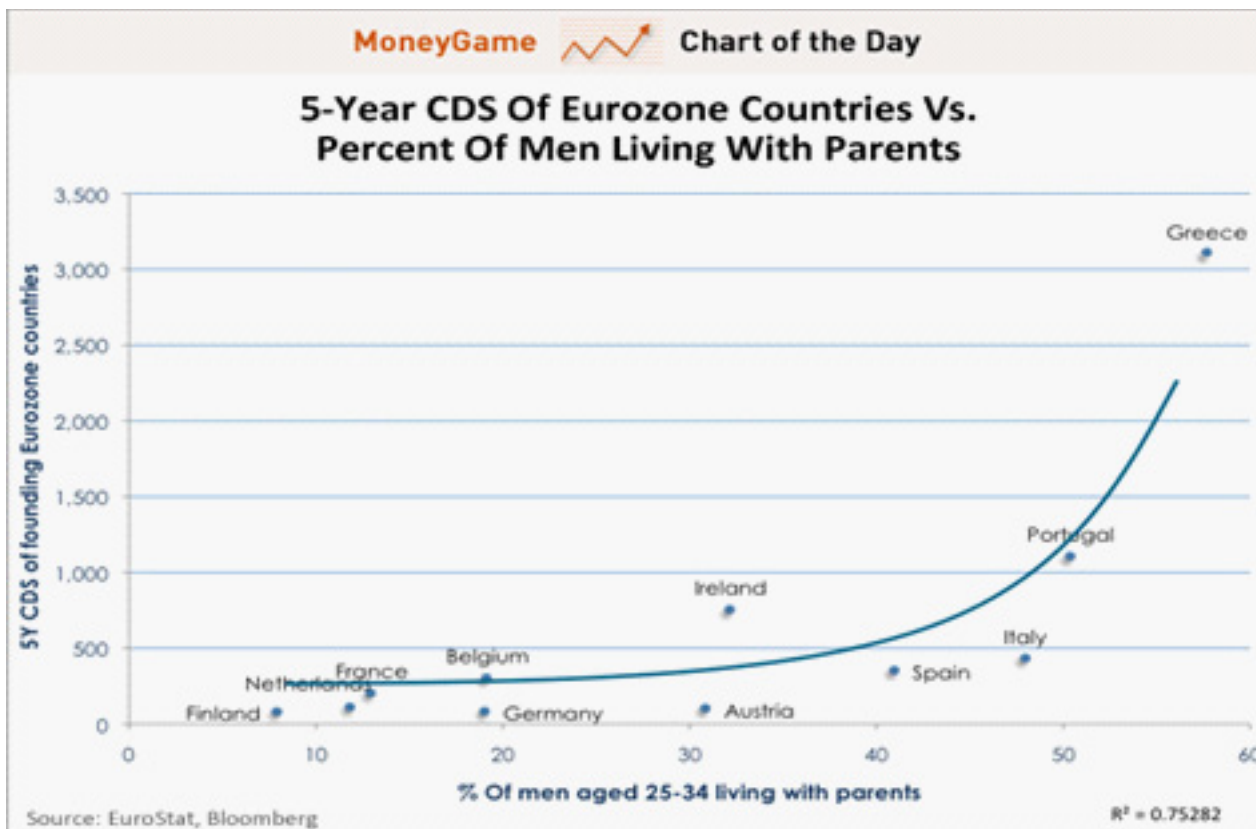
second bailout. The delay heightens the risk that Greece will be forced into a full-scale default next month, when unable to pay out bondholders of a 14.5 billion euro issue maturing on March 20th.”

WEDNESDAY, FEBRUARY 15TH

- The Federal Reserve reports U.S. industrial production increased by 0.7% in January, following a revised gain of 1.5% in December, citing higher demand for automobiles and business equipment
- The Federal Reserve Bank of New York’s Empire State manufacturing index increased to a reading of 19.5 in February from a level of 13.5 in January; however, factory executives were less optimistic about the immediate future. The gauge measuring the executive outlook six months hence declined to a reading of 50.5 from a one-year high point of 54.9. The Empire State index covers New York State, northern New Jersey and southern Connecticut.

Euro zone bond yields





- Front Page Headline, Bloomberg News – “German Economy Beats Fourth Quarter Forecast. The Wiesbaden-based Federal Statistics Office reports Germany’s gross domestic product (GDP) declined by a seasonally adjusted 0.2% in the October-December period, slightly ahead of economists’ median prediction for a 0.3% decline”
- Front Page Headline, Bloomberg News – “Juncker Confident EU Ministers Will Decide on Greek Rescue Feb. 20. In a statement issued following a conference call of EU finance ministers, Luxembourg Prime Minister Jean-Claude Juncker stated: ‘I am confident that euro area finance ministers will make a decision on a financial bailout for Greece at their next meeting on February 20th.’”
- Front Page Headline, Daily Telegraph U.K. – “Pension Crisis Forces Thousands to Work Until They Drop. In an op-ed, reporter Jeremy Warner notes: ‘Two thirds of Britons who are delaying retirement are doing so because they can’t afford it. If you think pensions are boring, how exciting do you think poverty in old age will be? That’s what I used to say to cynics who questioned the value of building a retirement fund. Or, if they’d heard that one before, I would point out that any fool can opt out of saving, but it’s more difficult to opt out of growing old. Now it seems that ris-

ing numbers of people are opting out of retirement. According to Prudential, one in ten of those due to retire this year are making alternative arrangements. How much bitter disappointment is there hidden away in that bland euphemism? Only one in three of the non-retirees could even be bothered to pretend they enjoy going to work so much, that they cannot think of anything more entertaining to do with rest of their lives.

They are the victims of the rotten returns from many pension plans, rising taxation, falling annuity yields and longer life spans. For many, the holiday of a lifetime has not just been delayed, but effectively cancelled. With no realistic prospect of any of the macro-economic factors improving soon, many will work until they drop. While those fortunate to enjoy final salary or defined benefit pensions can ignore these problems, people with money purchase or defined contribution schemes, face an increasingly daunting task.”

- The National Association Of Home Builders/ Wells Fargo reports its housing market index rose to a reading of 29 in February from a level of 25 in January, citing confidence in the market for new single family homes has increased for the fifth consecutive month



erties and close to record low mortgage rates attract buyers. Simultaneously, the glut of foreclosed houses remains a constraint on construction. According to Realty Trac Inc. foreclosure filings rose for the first time in more than a year in Florida, Indiana, Pennsylvania and Illinois, as lenders resumed property seizures after a probe of documentation. All are 'judicial states' where courts supervise property seizures, adding time to the process.

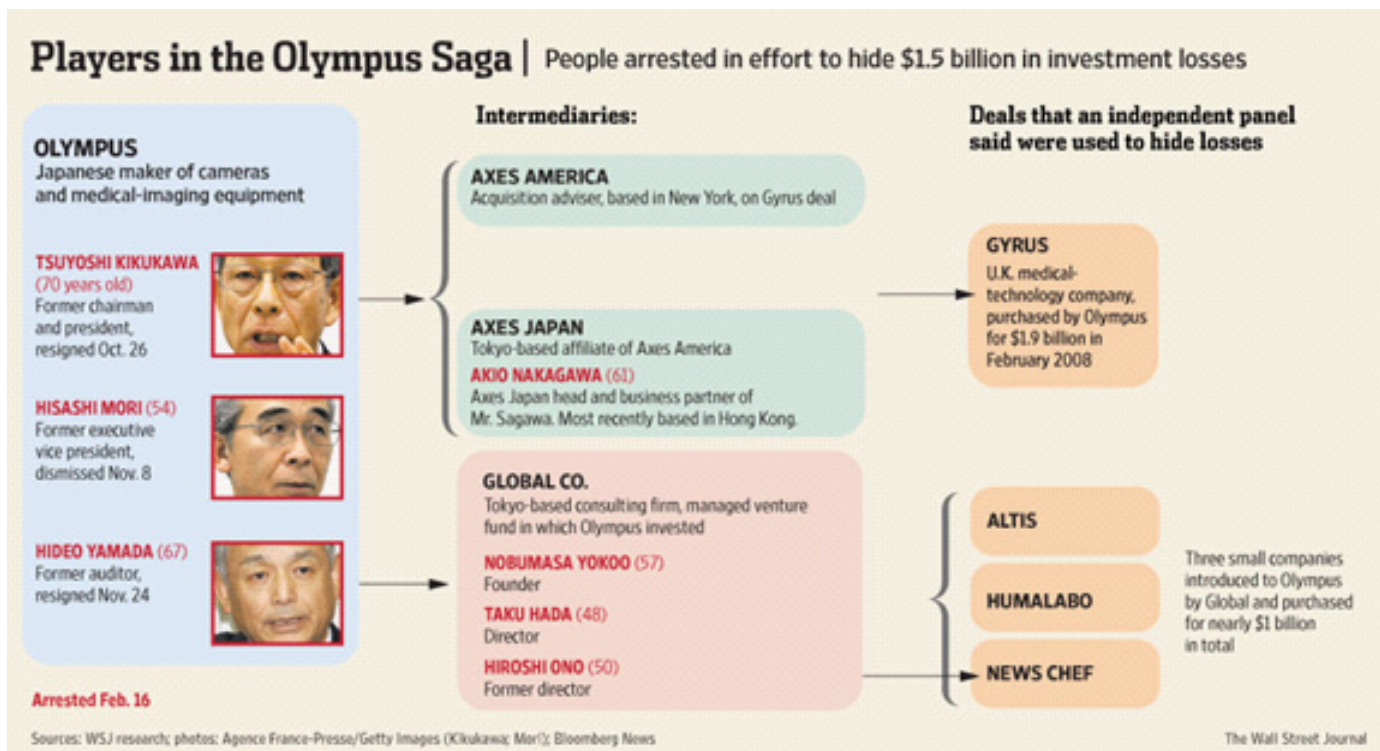
- Statistics Canada reports the nation's factory sales rose by 0.6% in December, falling short of a 1.5% expected increase, citing a decline in oil product prices. Separately, durable goods orders rose by 2.1% in December, citing automobile sales up by 2.7%, the highest level since November 2007.
- Agnico-Eagle Mines Ltd. reports a 4th. quarter net loss of \$604.1 million (CAD), or \$3.53 (CAD) per share, compared with a net profit of \$88 million (CAD), or 53 cents (CAD) per share in the same period of 2010. The Toronto-based company cited a \$644.9 million (CAD) partial write down of the Meadowbank mine and a non-cash foreign currency transaction loss of \$3.6 million (U.S.). Agnico-Eagle President and CEO Sean Boyd commented: "While 2011 was a very difficult year for our company, we look forward to 2012 since we expect the majority of our mines to produce more gold. We anticipate meeting our targets, increasing profitability and growing our shareholders' exposure to gold on a per share basis."



- Front Page Headline, Wall Street Journal – "Arrests in Olympus Scandal Signal Investigation's Scope. Tokyo prosecutors arrest the three Olympus executives that the company had identified as the primary people responsible for hiding \$1.5 billion (U.S.) in investment losses for 13 years. Authorities also arrested four other people in connection with the matter, including two former consultants who an independent panel appointed by Olympus in November said helped create the complex arrangement to hide the losses and then unwind it more than a decade later. The arrests, for allegedly falsifying financial statements, highlight questions which still hang over Olympus. The Japanese maker of cameras and medical-imaging equipment plans to revamp its

THURSDAY, FEBRUARY 16TH

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 13,000 to a seasonally adjusted 348,000 in the week ended February 11th. – the lowest level since March 2008 – while continuing claims declined by about 100,000 to a seasonally adjusted 3.43 million in the week ended February 4th. Those people who have exhausted their traditional benefits but are now receiving emergency or extended benefits from federal programs increased by 18,304 to 3.902 million in the week ended January 28th.
- The Federal Reserve Bank of Philadelphia's general economic index rose to a reading of 10.2 in February from a level of 7.3 in January. David Semmens, a U.S. economist at Standard Chartered Bank in London commented: "Manufacturing is still receiving good demand both domestically and from abroad. You're seeing stronger demand in the automotive sector and reasonable demand for high-end capital goods."
- The Labor Department reports the U.S. producer price index rose by 0.1% in January, following a 0.1% decline in December, while the core rate rose by 0.4%. Mark Vitner, an economist at Wells Fargo Securities LLC in Charlotte, North Carolina, commented: "It's something that happens at the start of the year, where price increases are passed through and tend to erode. We're in a relatively low inflation environment where commodity prices have come down because the global economy is cooling."
- The Commerce Department reports U.S. housing starts rose by 1.5% in January to a 699,000 annual pace from December's 689,000 annual pace. Beazer Homes USA Inc. and D.R. Horton Inc. are among builders reporting more orders as cheaper prop



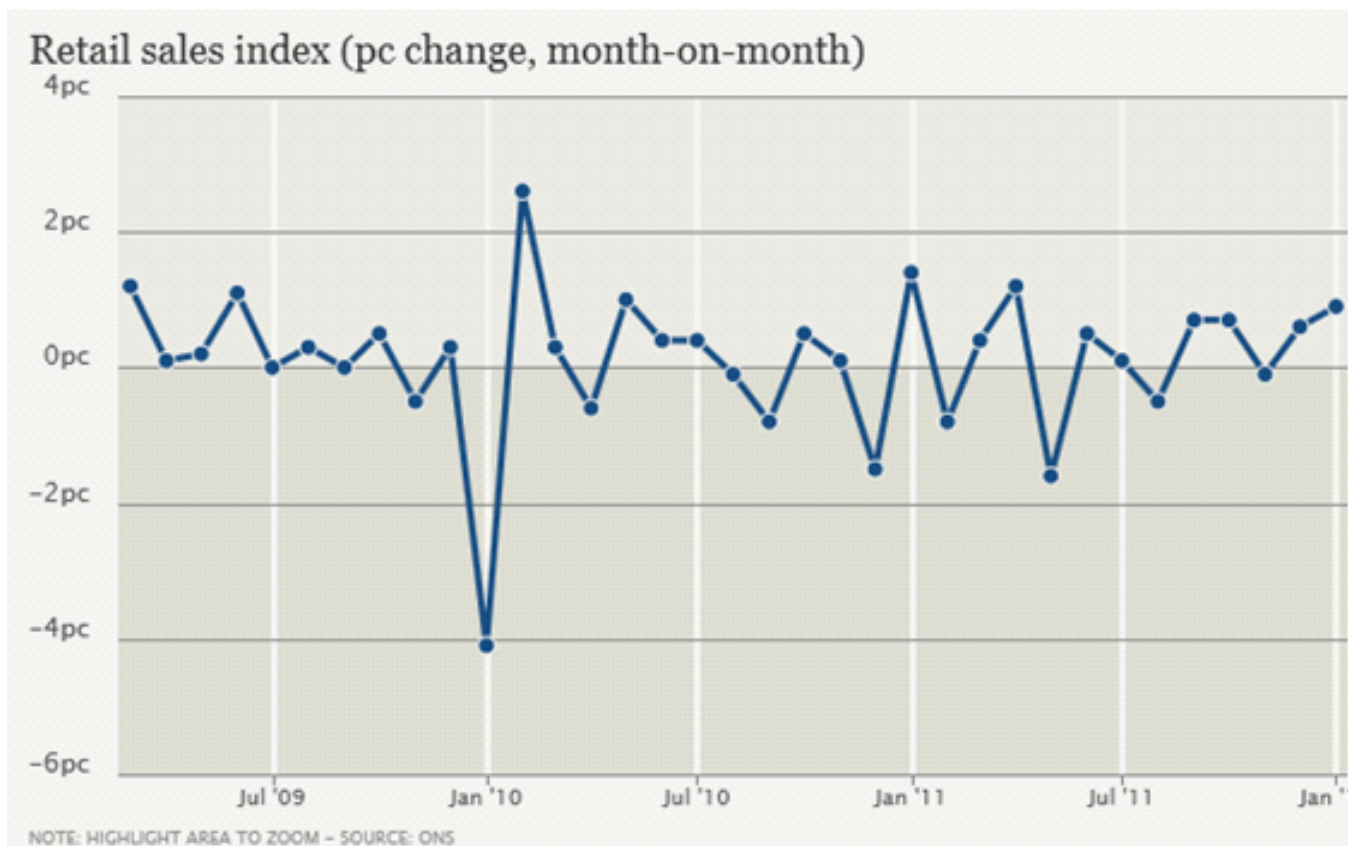
management and is trying to restore its finances and reputation since the scandal broke last November.”

- Front Page Headline, Wall Street Journal – “Lawmakers Finalize Payroll Tax Agreement. Congressional negotiators announce they have come to an agreement to extend unemployment benefits and the payroll tax cut, paving the way for a vote before the policies expire at the end of February. Rep. Dave Camp (R. MI) confirmed: ‘We have reached an agreement. We’re confident that this can be concluded.’ Sen. Max Baucus (D. MT) added: ‘It’s clear that we’ll have a majority of conferees sign the conference report.’ The agreement would extend the payroll tax break, which reduces workers’ payroll taxes to 4.2% from 6.2% until year-end. It would also renew expiring unemployment benefits but reduce the maximum number of weeks. In addition, it would adjust the Medicare payment system to avoid a 27% reduction in physicians’ fees.”
- Front Page Headline, Financial Times – “Athens Faces Tough Bailout Terms. European Union officials, working on the final details of a 130 billion euro Greek bailout plan, reveal it will contain unprecedented controls on Athens’ ability to spend funds. The agreement is likely to include an escrow account which must always contain enough cash to service Greece’s debt for nine to twelve months. If the balance in the account falls below that level, money will be transferred from funds earmarked to operate the Greek government. In addition, the bailout will include a

permanent and empowered presence of international monitors who will attempt to maintain a close watch on the Greek government’s spending decisions. If the agreement is finalized by Monday, it will still include a list of 24 ‘prior actions’ that Greece must complete by the end of February, before the bailout monies are released. A 200 billion euro debt restructuring will follow, with offers to private debt holders to participate in a new issue on Wednesday. The offer would be open for 10 days and the bond exchange completed by March 13th.

FRIDAY, FEBRUARY 17TH

- The Labor Department reports the U.S. consumer price index (CPI) rose by 0.2% in January, after being unchanged in December. Jeremy Lawson, an economist at BNP Paribas in New York commented: “We’ve seen the peak in inflation. There is still a reasonable amount of slack in the labour market.”
- According to Zero Hedge: “Global bond issuance will exceed a staggering \$8 trillion (U.S.) during 2012. The G-7 nations alone face a massive \$7.3 trillion (U.S.) of sovereign debt maturities and a further \$566 billion (U.S.) in interest payments in 2012 alone. This incomprehensible number is worsened only in historical comparison, since its current level is 125% higher than was expected at the end of 2010.”



- The Office for National Statistics reports U.K. retail sales rose by 0.9% in January, citing lower inflation and post-Christmas discounting lured consumers back to the shops
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- Statistics Canada reports the nation’s consumer price index (CPI) rose by 2.5% in January on a year-over-year basis, following December’s 2.3% gain. The core rate, which excludes eight volatile items, rose to 2.1% from December’s level of 1.9%. Jimmy Jean, a fixed income strategist at Desjardins Capital Markets in Montreal, commented: “Core CPI is still at a comfortable level for the Bank of Canada. We expect soft domestic demand and still elevated spare capacity (in the economy) to keep a lid on inflation in the coming months.”

**CLOSING LEVELS FOR FRIDAY, FEBRUARY 17TH.
WEEKLY CHANGE**

Dow Jones Industrial Average	12,949.87	+ 148.64 points
Spot Gold Bullion (March)	\$1,725.90 (U.S.)	+ \$0.60 per oz.
S&P /TSX Composite	12,458.30	+ 68.88 points
10-Year U.S. Treasury Yield	2.00%	+ 1 basis point
Canadian Dollar	100.43 cents (U.S.)	+ 0.71 cent
U.S. Dollar Index Future (Spot Price)	79.392 cents	+ 0.377 cent
WTI Crude Oil (March)	\$103.60 (U.S.)	+ \$4.93 per barrel

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