Monday October 1, 2012

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, October 1st

Front Page Headline, Financial Times - **"U.S. Debt Limit Lurks in Fiscal Cliff Talks.**

Monday, October 1st

According to several lawmakers, congressional aides and analysts, there is scant probability that American lawmakers will possess the political will – or the time – to include an increase in the U.S. statutory debt limit as part of the talks to avoid triggering the fiscal cliff on January 1st. The fiscal cliff is a $600 billion (U.S.) combination of spending cuts and tax increases that could steer the U.S. into recession unless Congress acts to prevent it during the 'lame duck' legislative session between the November presidential election and the Christmas holidays. However, lurking just beyond the fiscal cliff is the necessity to raise the statutory debt ceiling again, reviving memories of the political gridlock which led to the downgrading of America's AAA sovereign debt credit rating by Standard & Poor's in August 2011. The Department of the Treasury has stated that the country should reach the current debt threshold of $16.4 trillion (U.S.) by early 2013. The fate of the debt ceiling will hinge upon Washington's political environment if the balance of power is reshaped by the November election. Currently, polls show Barack Obama ahead in the race for the presidency, with the Republicans seen likely to retain control of the House and Democrats of the Senate. Such an electoral outcome would likely mean the current state of political gridlock on fiscal policy would continue, with both sides claiming electoral mandates to adhere to their positions, leading to huge uncertainty in the U.S. financial markets and elsewhere. As in the past, Congress could somehow muddle through the fiscal cliff and debt limit debates with a series of short-term solutions. However, over the short term, at least during the 'lame duck' session of Congress, any solution to the statutory debt limit is likely to remain on the back burner." **At Longwave Analytics, we believe the most likely scenario to unfold will be an intensification of political gridlock post the November elections. Republicans are unlikely to compromise on any government fiscal issues due to their commitment to Washington lobbyist Grover Norquist's 'Taxpayer Protection Pledge.'**

- The Tempe, Arizona-based Institute for Supply Management (ISM) reports its U.S. manufacturing index rose to a reading of 51.5 in September, following a level of 49.6 in August, citing sustained strength in motor vehicle sales and a rebound in demand for home construction materials

- Eurostat – the European Union's statistical office – reports 18.2 million people remained unemployed in the 17-country euro zone in August, while 25.5 million people were without work in the broader 27-member European Union. Simultaneously, the European Commission reported a record 22.7% of 18-25 year-old Europeans were unemployed in August. EC spokesman Jonathan Todd elaborated: "EU institutions and governments, as well as businesses and social partners at all levels need to do all they can to avoid a lost generation; which would be an economic and social disaster."

- Front Page Headline, Midas Letter – **"Defeat of Position Limits Poses Direct Threat to Precious Metals Potential.** Late on Friday, Bloomberg News reported: 'In Washington, U.S. District Judge Robert Wilkins ruled that the 2010 Dodd-Frank Act is unclear whether the Commodity Futures Trading Commission (CFTC) was ordered by Congress to cap the number of contracts a trader can have in oil, natural gas and other commodities, without first assessing whether the rule was necessary and appropriate.' In his 43-page ruling Judge Wilkins stated: 'Although the court does not foreclose the possibility that the CFTC could, in the exercise of its discretion, determine that it should impose position limits without a finding of necessity and appropriateness, it is not plain and clear that the statute requires this result.' The International Swaps and Derivatives Association, the Securities Industry and the Financial Markets Association had sued the CFTC, arguing that the Commission never studied whether the regulation was 'necessary and appropriate' or, quantified the costs tied to implementing the rule. The lobbyist groups which represented big banks and asset managers, including JP Morgan Chase, Goldman Sachs Group and Morgan Stanley. Ergo, the message sent from the court to the primary manipulative forces in the markets for commodities is: 'You may continue to influence prices at will, contrary to the interest of the global economy.' As a result of this ruling, the immediate peril is that gold and silver bull market trends – revived by the unlimited capital fabrication now underway – will be set up for another huge short position that will send prices tumbling whenever the colluding entities decide the time is right. In response, Bart Chilton, a CFTC commissioner stated: 'There's no question that huge individual trader positions have the potential to influence prices to the detriment of legitimate hedgers and ultimately consumers.' Average investors, as well as the principals of investment banks are challenged by what they view as a complex market and who are easily persuaded to dismiss the evidence. However, the new ruling is a reinforcement of the conditions which permit such manipulation to persist. To thinking individuals, it is unfathomable how the complacency is so ubiquitous. Absent position limits, futures and forwards contract originators can create as many contracts as they wish to buy or sell gold at a fixed price in the future. In a properly regulated market (and by the simple logic of demand and supply economics), it would be required either that the originator of a forward sale actually have the commodity in his possession, or that the buyer of a forward sale actually take delivery. This would imply that there could not be contracts issued representative of more gold, silver or oil than is readily available for delivery, i.e. no more than is produced. At present, the opposite is the case and it appears that will be the situation going forward, thanks to the absence of position limits. With market participants able to create as much apparent and artificial demand as they wish, the prices of commodities will continue to be at their mercy. Moreover, as we have recently witnessed in the LIBOR scandal, banks do not always act in the best interest of their clients, nor do governments which make their larceny possible; or even the general public."

Tuesday, October 2nd

- Following its monthly policy meeting, the Reserve Bank of Australia announces a 25 basis point cut in its cash lending rate to 3.25%; its third reduction this year. Central Bank Governor Glenn Stevens commented: "In light of international economic developments, the monetary policy board judged that the country's GDP growth outlook for 2013 looked a little weaker. Therefore, the Board decided that it was an appropriate stance for monetary policy to be a little more accommodative. Economic activity in Europe is contracting, while GDP growth in the United States remains modest. Economic growth has also slowed in China and uncertainty about its near-term prospects being greater than it was some months ago, is affecting Asia generally. Moreover, key commodity prices for Australia remain significantly lower than earlier in the year; even though a few have regained some ground in recent weeks."

- Spain's Labour Ministry reports the nation's unemployment rate rose by 1.7% to 25% in September – leaving 4.7 million people out of work – citing the bulk of job losses were in the services sector which covers hotels and restaurants most affected by the tourism trade

- Autodata Corp. reports U.S. vehicle sales reached a 41/2 year high in September driven by a big increase in passenger car sales at Toyota Motor (up 42%), Honda (up 31%) and Chrysler (up 12 %). Overall sales rose by 12.8% from a year earlier to 1.19 million cars and light trucks – an annualized pace of 14.94 million vehicles.

Wednesday, October 3rd

- Roseland, New Jersey-based ADP Employer Services reports private employer payrolls increased by 162,000 in September, following a revised increase of 189,000 in August. Small businesses added 81,000 jobs, while medium-sized companies created 64,000 jobs and large corporations added 17,000 positions; as most gains were in the services sector

- Markit Economics, a financial data provider, reports its composite purchasing managers' index for the euro zone – reflecting new orders for the manufacturing sector – declined to a reading of 46.1 in September following a reading of 47.2 in August

- The Institute for Supply Management (ISM) reports its index of U.S. non-manufacturing businesses – covering about 90% of the economy – rose to a reading of 55.1 in September from a level of 53.7 in August

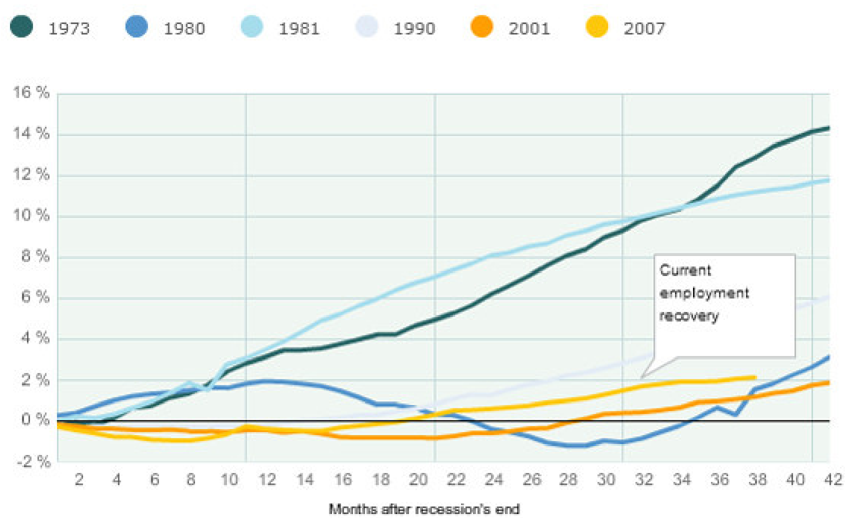
- The National Bureau of Statistics and China Federation of Logistics and Purchasing in Beijing report the nation's purchasing managers' index declined to a reading of 53.7 in September from a level of 56.3 in August

- Front Page Headline, Daily Telegraph U.K. – **"Global Economic Recovery Will Take at Least a Decade: IMF.** In an interview with the Hungarian press, International Monetary Fund Chief Economist Olivier Blanchard stated: 'It's not yet a lost decade ... however; it will surely take at least a decade from the beginning of the financial crisis in 2008 for the world economy to return to decent shape."

IMF Chief Economist Olivier Blanchard   Source: Daily Telegraph U.K.

Thursday, October 4th

- The Labor Department reports U.S. initial claims for state unemployment benefits increased by 4,000 to a seasonally adjusted 367,000 in the week ended September 29th. while continuing claims remained unchanged at 3.28 million in the week ended September 22nd.



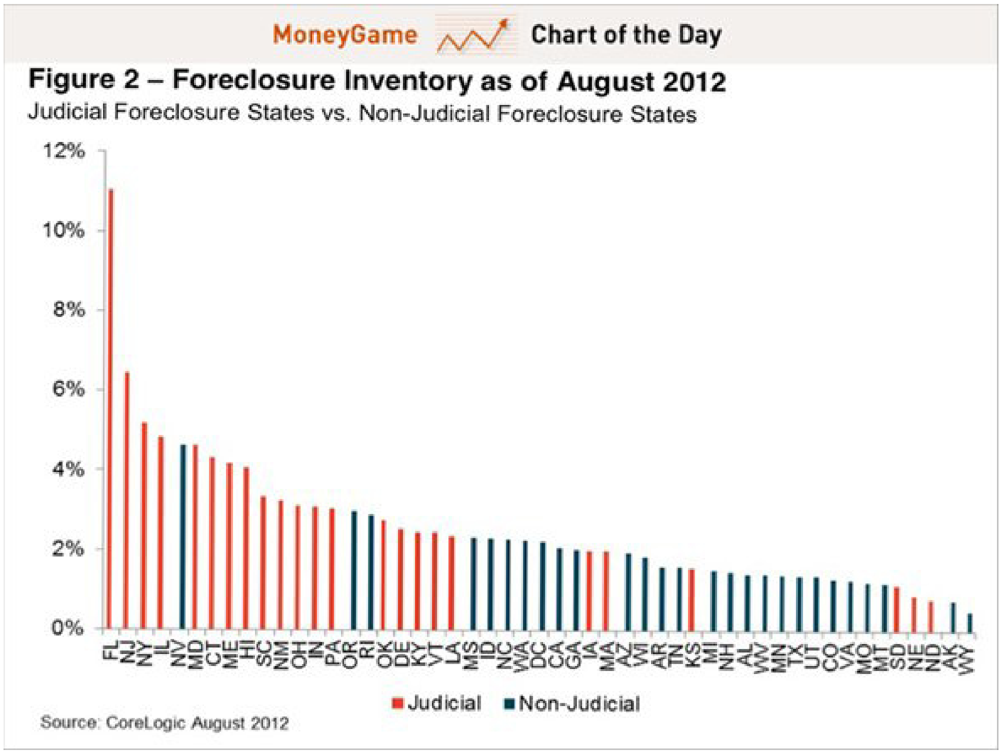
Source : Minneapolis Fed

- The Commerce Department reports American factory orders declined by 5.2% to $452.51 billion (U.S.) in August – the largest decline since January 2009 – citing a 34.9% drop in transportation orders and an 11% decline in automobile and auto parts orders

- According to 19 U.S. retailers surveyed by Thomson Reuters, same store sales – outlets open for at least one year – rose by 0.8% in September on a year-over-year basis, citing poor sales at drug store chains Walgreens and Rite Aid

- Front Page Headline, Daily Telegraph U.K. – **"Spain's GDP Forecasts Are Optimistic: Gov. Linde.** In an address to a parliamentary committee, Spanish central bank Governor Luis Maria Linde warned: 'Spain needs to impose more austerity measures in addition to the billions of euros of cuts already announced, in order to meet the country's deficit target of 4.5% of gross domestic product (GDP). The (financial) information available to the state to the end of August indicates there are risks of slippage on the goal fixed for this year. The Government's (economic) outlook is certainly optimistic in comparison with the outlook shared by the majority of international organizations and analysts."

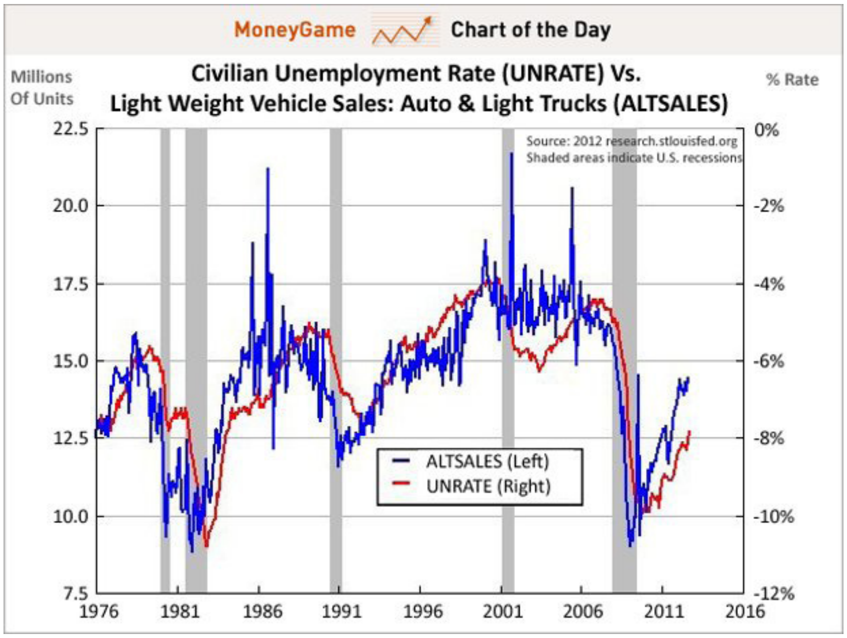
- Front Page Headline, Business Insider – **"Foreclosure Inventory Soars in Florida.** According to CoreLogic's most recent report, the national inventory of home foreclosures is moderating slightly compared to a year ago. However, Florida posted an 11% increase in foreclosure inventory in August and has completed 92,000 foreclosures in the 12 months ended in August. In judicial states like Florida, there are concerns that shadow inventory could continue to grow, since it takes more time for foreclosure approvals."



Friday, October 5th

- Statistics Canada reports the nation added 52,100 jobs in September, following a gain of 34,300 in August, while the unemployment rate increased slightly to 7.4% from 7.3%, as the number of people in the work force expanded. Full-time employment increased by 44,100 in September and part-time positions rose by 8,000. In a note to clients, Douglas Porter, an economist at BMO Nesbitt Burns in Toronto commented: "Despite the gyrations in the global economic climate, the underlying trend in Canadian employment is surprisingly stable."

- The Labor Department reports U.S. non-farm payrolls increased by 114,000 in September while the official unemployment rate declined from 8.1% to 7.8%, the lowest rate since January 2009. Moreover, revisions to July and August added a combined 86,000 jobs. **At Longwave Analytics, we note that Jack Welch, retired former CEO of General Electric, reacted forcefully in dispute of the jobs and unemployment report, suggesting President Obama had manipulated the figures because his recent debate performance was poor: "Unbelievable jobs numbers ... these Chicago guys will do anything ... can't debate so change the numbers."**



- Front Page Headline, Daily Telegraph U.K. – **"Greece Cannot Manage Beyond November: Samaras.** In a dramatic television interview, Greek Prime Minister Antonis Samaras warned: 'Greece cannot manage beyond November without the next tranche of international aid,' while cautioning of the consequences of unemployment for democracy in the country. German Chancellor Merkel will be visiting Greece on Tuesday next." **See also, Economic Winter, Will Germany Exit the European Monetary Union (2) – Greece: Ask Not for Whom the Bell Tolls, It Tolls for Thee, September 21, 2012.**

The Greek Parthenon in Athens Source: Associated Press

LONGWAVE group

CLOSING LEVELS FOR FRIDAY, OCTOBER 5		WEEKLY CHANGE
Dow Jones Industrial Average	13,610.15	+ 173.02 points
Spot Gold Bullion (December)	$1,780.80 (U.S.)	+ $6.90 per oz.
S&P / TSX Composite	12,418.99	+ 101.53 points
10 - Year U.S. Treasury Yield	1.75%	+ 12 basis points
Canadian Dollar	102.22 cents (U.S.)	+ 0.51 cent
U.S. Dollar Index Future (Spot Price)	79.336 cents	– 0.554 cent
WTI Crude Oil (November)	$89.88 (U.S.)	– $2.31 per barrel

Ian A. Gordon, The Long Wave Analyst www.longwavegroup.com

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