Monday October 8, 2012

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, October 8th

Front Page Headline, Wall Street Journal – **"China's Huawei Poses U.S. National Security Threat: Congressional Committee.**

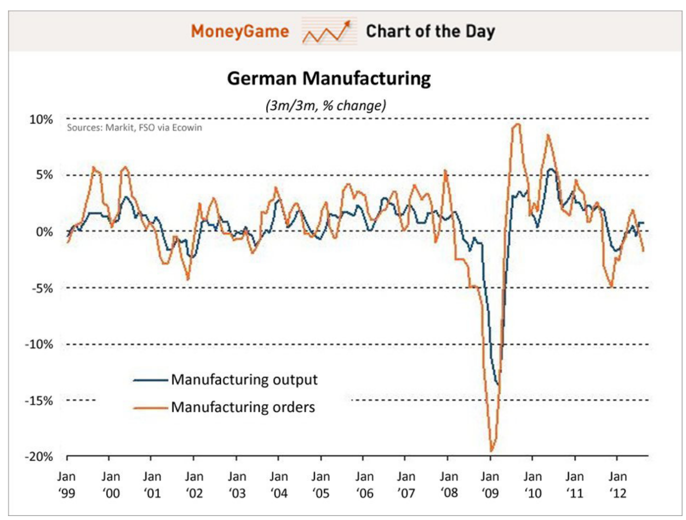
Monday, October 8th
Thanksgiving Day Holiday in Canada
Columbus Day in the U. S.

Following a year-long investigation, the U.S. House Permanent Select Committee on Intelligence has concluded that Chinese telecommunications giant Huawei Technologies Inc. and a second firm ZTE Inc., pose security risks to the U.S. because their equipment could be used for spying on Americans and they may have already violated U.S. laws. 'The House Intelligence Committee recommends that the United States block acquisitions or mergers involving the two companies through the Committee on Foreign Investments in the U.S. The Committee also recommends that the U.S. government avoids using equipment from those firms; and that American companies seek alternative vendors for telecommunications equipment."

Investigative Report on the U.S. National Security Issues Posed by Chinese Telecommunications Companies Huawei and ZTE

A report by Chairman Mike Rogers and Ranking Member C.A. Dutch Ruppersberger of the Permanent Select Committee on Intelligence

- The Federal Statistical Office reports German exports totaled 95 billion euros ($124 billion U.S.) – on a seasonally adjusted basis – in August. Separately, German manufacturing orders declined by 1.3% in August, while industrial production declined by 0.5% compared with July.



- Front Page Headline, Associated Press - **"12,000 Striking South African Miners Fired.** Anglo American Platinum, or Amplats, has fired 12,000 striking miners for staging an unlawful strike which is one of several that are slowly paralyzing South Africa's crucial mining sector. About 80,000 miners, representing 16% of the country's mine work force, are currently striking in a wave of wildcat work stoppages that have serious economic and political implications for South Africa. Strike leader Gaddafi Mdoda vowed that the fired miners would intensify their strike, even if they were no longer bona fide employees of Amplats, which is the world's largest producer of platinum."

Striking platinum miners march near the Amplats mine in Rustenburg, South Africa Source: Reuters

Tuesday, October 9th

- The Washington-based National Federation of Independent Business reports its U.S. business confidence index fell slightly to a reading of 92.8 in September from a level of 92.9 in August, with 4 of the 10 index components declining
- Front Page Headline, Bloomberg News – **"Alarmingly High Risk of a Deeper Global Economic Slowdown: IMF.** Issuing its World Economic Outlook at its Tokyo conference, the International Monetary Fund reduced its global economic growth forecasts, as the euro zone's sovereign debt crisis intensifies. 'The world economy will grow by 3.3% this year – the slowest since the 2009 recession – and by 3.6% in 2013 ... A key issue is whether the global economy is just hitting another bout of turbulence in what was always expected to be a slow and uneven recovery, or whether the current slowdown has a more lasting component. The answer depends upon whether European and U.S. policy makers deal proactively with their (respective) major short-term economic challenges ... Confidence in the global financial system remains exceptionally fragile. Bank lending has remained sluggish across advanced economies and increased risk aversion has negatively impacted capital flows to emerging markets. U.S. policy makers must find an alternative to planned automatic tax increases and spending cuts (the fiscal cliff) which would ignite an economic recession. Europeans must adhere to their own commitments for a more integrated monetary union, while many emerging markets can afford to lower (administered) interest rates, or pause in any tightening (of monetary policy) to prevent (downside) risks to their own economies." **At Longwave Analytics, while we would agree with the IMF that there exists high risk of a deeper global economic slowdown, but we strongly disagree that the European sovereign debt problem and American fiscal cliff problem represent short-term economic challenges. Indeed, these economic challenges will definitely present problems for the longer term.**

- Front Page Headline, Bloomberg News – **"Spain's Deepening Budget Deficit Outpaces Spending Cuts.** The harshest austerity measures imposed since the return to democracy in 1978, have failed to contain Spain's budget deficit, as its economy sinks deeper into recession. The country registered a budgetary black hole equivalent to 9.4% of gross domestic product (GDP) in 2011. While the deficit increased again during the first half of 2012, the international monetary Fund (IMF) expects it to retreat to about 7% of GDP for the year – excluding the cost of bailing out domestic banks – following the introduction of health care cuts and a sales tax (VAT) increase. However, Spain's sovereign debt will increase by 17 percentage points to 85% of GDP in 2012 as the state absorbs the cost of bailing out banks, the power system and public contractors. That will add at least 10 billion euros to Spain's financing costs in 2013, offsetting the gain projected from the increase in the value added tax. In a telephone interview from London, Dario Perkins, director of global economics at Lombard Street Research, noted: 'Spain is on a completely unsustainable trend ... the domestic economy has completely imploded." **See also, Economic Winter, Will Germany Exit the European Monetary Union? (2) – The Pain in Spain Is Far From on the Wane (2), September 21, 2012.**

Spain's Deputy Prime Minister Soraya Saenz de Santamaria gazes into the budgetary black hole   Photo source: Angel Navarette / Bloomberg

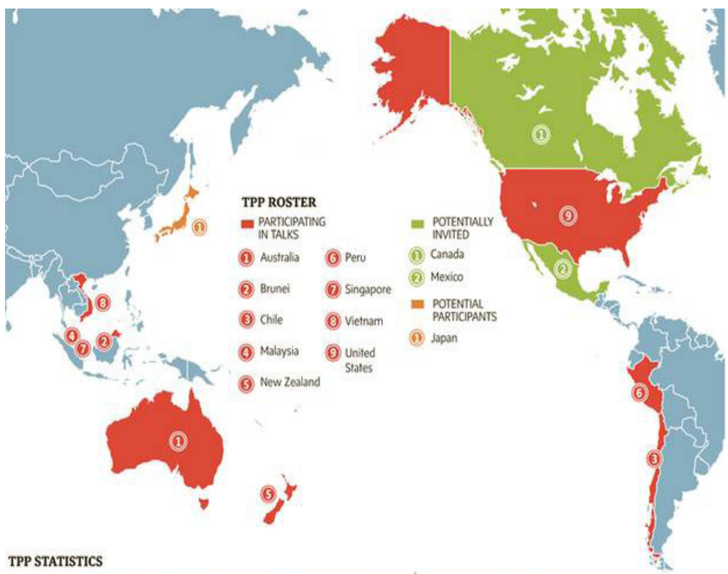
- Front Page Headline, Globe and Mail – **"Merkel's Mission to Greece: While Trying to Please Everyone, Ends by Pleasing No One.** German Chancellor Angela Merkel's first visit to Athens since the Greek-inspired debt crisis began almost three years ago was a brave, if impossible, mission. Brave because the German Chancellor faced a hostile reaction from the protestors who consider her the cruel face of austerity; impossible because her mission to please both German voters and the Greek people could accomplish neither. At the invitation of Greek Prime Minister Antonis Samaras, Chancellor Merkel made a 6-hour visit to Athens which was billed as a gesture to Greece's government and its people; as well as a show of solidarity for a country enduring Europe's deepest recession and second-highest unemployment rate, after Spain. ... Ms. Merkel arrived with no new money and no favours. She urged Greece to adhere to its austerity commitments. 'I hope and I wish Greece remains part of the euro. We really can see light at the end of the tunnel.' That light is invisible to most Greeks because their economy has entered its fifth year of recession." **At Longwave Analytics, we suggest that the 'light' that Ms. Merkel envisages at the end of the tunnel is really that of an onrushing train. 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.**

Athens police attempt to disperse protestors during a demonstration against Angela Merkel's visit.   Source: Grigoris Siamidis / Reuters

Wednesday, October 10th

- Front Page Headline, Bloomberg News – **"European Banks Face $4.5 Trillion (U.S.) Deleveraging: IMF.** In its most recent Global Financial Stability Report, the International Monetary Fund asserts: 'European banks may have to sell as much as $4.5 trillion (U.S.) in assets through 2013, if policy makers are unable to stem the euro zone sovereign debt crisis. Failure to implement fiscal tightening or establish a single supervisory system within the agreed upon time frame could force 58 European banks – from Deutsche Bank AG to UniCredit SpA – to reduce assets. In turn, that would impact credit growth and impair gross domestic product (GDP) growth by 4 percentage points in Europe's periphery countries of Greece, Cyprus, Ireland, Italy, Spain and Portugal.' Michael Seufert, an analyst at Norddeutsche Landesbank in Hanover, Germany, commented: 'There is definitely a need for (bank) deleveraging in Europe. The danger is that it may produce a downward spiral as the bank regulations become more strict and the euro economy slows down, potentially meaning even more write-downs for banks. States in the periphery will be affected the most.' Separately, in its report the IMF seized the opportunity to chide the European Union (EU) for its unfinished response to the euro zone sovereign debt crisis: 'Despite many important steps already taken by policy makers, this agenda remains critically incomplete, exposing the euro area to a downward spiral of capital flight, breakup fears and economic decline. The euro zone's debt crisis represents the main threat to global financial stability, which has weakened in the last six months to leave confidence (in the euro) in a very fragile state."

- Front Page Headline, Globe and Mail – **"Canada Joins Trans-Pacific Partnership.** After almost a year of waiting, Canada has officially joined the major Pacific Rim trade talks and will join the other 10 TPP members at the negotiating table for the next full round of talks in Auckland, New Zealand, set for December 3rd. to December 12th."



TPP STATISTICS

Country	2011 GDP (billions of U.S. dollars)	2011 real GDP growth	2010 Canadian exports (C$ 000s)
Australia	$1,488	2.04%	$1,751,792
Brunei	$16	1.89%	$12,167
Chile	$248	5.92%	$587,462
Malaysia	$279	5.14%	$785,956
New Zealand	$162	1.44%	$321,473
Peru	$174	6.91%	$479,022
Singapore	$260	4.89%	$834,846
Vietnam	$123	5.89%	$264,730
United States	$15,094	1.74%	$299,068,444
Canada	$1,737	2.46%	Not applicable
Japan	$5,869	-0.75%	$9,195,136
Mexico	$1,155	3.97%	$5,008,167

THE GLOBE AND MAIL » SOURCES: U.S. CONGRESSIONAL RESEARCH SERVICE; C.D. HOWE INSTITUTE

- Front Page Headline, Wall Street Journal – **"Spain's Sovereign Debt Credit Rating Cut by Two Levels: S&P.** Standard & Poor's Ratings Service cuts Spain's sovereign debt credit rating to 'BBB' (Low) from 'BBB' (High) with a negative outlook citing, 'the declining ability of Spain's political institutions to cope with the strain of a severe and deepening (economic) recession. While the policy framework of euro zone governments remains unpredictable, the capacity of Spain's political institutions to grapple with the challenges posed by the economic and financial crisis is deteriorating. S&P's negative outlook reflects the view that external and domestic risks to Spain's financial position could continue to place a strain on the country's creditworthiness. S&P could lower the rating further if political support for current (fiscal) reforms wanes, or if euro zone support fails to boost (investor) confidence, or if (the level of) general government debt increases."

- Front Page Headline, New York Times – **"Bundesbank Escalates Dispute over ECB's Bond Purchase Plan.** In an initial ruling last month, Germany's Federal Constitutional Court refused to block Germany's participation in the newly established European Stability Mechanism (ESM) – the European Union's bailout fund. However, the Court has yet to rule on the constitutional legality of the bond purchase program, as part of a lawsuit brought by citizens and some euro-skeptic members of the German Parliament. Meanwhile, Bundesbank President Jens Weidmann continues his opposition to the bond buying program with his office issuing the following statement: 'The German Bundesbank would welcome examination by the Federal Constitutional Court of an open legal question in relation to the prohibition of monetary financing of governments."

Thursday, October 11th

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by a seasonally adjusted 30,000 to 339,000 – the lowest level in four years – in the week ended October 6th. while continuing claims fell by 15,000 to a seasonally adjusted 3.27 million in the week ended September 29th. The number of people who have exhausted their traditional benefits but may be receiving emergency or extended benefits from state or federal programs declined by 43,970 to about 5 million in the week ended September 22nd.

- The Commerce Department reports the U.S. trade deficit widened by 4.1% to $44.2 billion (U.S.) in August from $ 42.5 billion (U.S.) in July, citing a reduced demand for American exports, which declined by 1% to $181.3 billion (U.S.)

- Statistics Canada reports the nation posted a merchandise trade deficit of $1.3 billion (CAD) in August – the 5th. consecutive monthly decline – down from $2.5 billion (CAD) in July, citing a slowing global economy and a continuing high Canadian dollar. Derek Holt, an economist with Scotia Capital in Toronto, commented: 'The trade figures suggest an abrupt slowing in the domestic economy. Both consumer spending and business investment appear to be subsiding.'

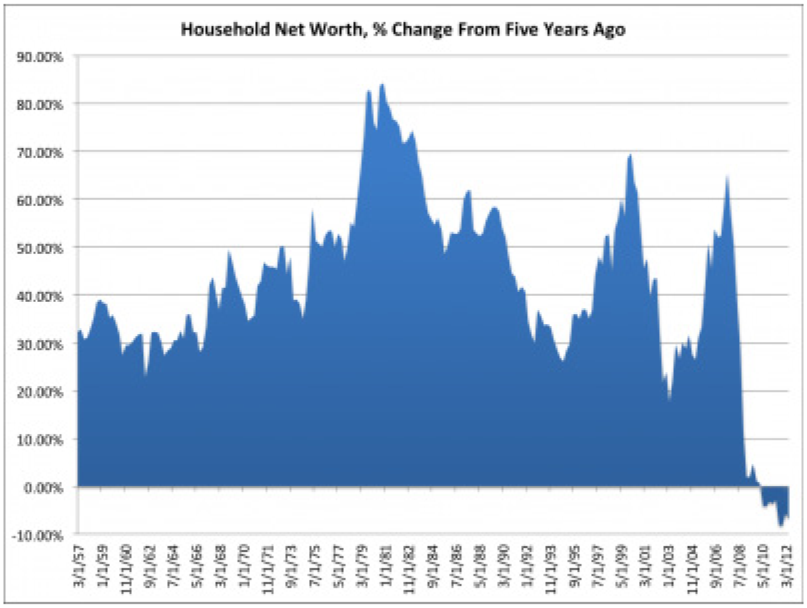
- Front Page Headline, Globe and Mail – **"New LEI Launched for Canadian Economy.** The Ottawa-based Macdonald-Laurier Institute has initiated a monthly leading economic indicator which aims to provide insights on the future course of the Canadian economy. Other countries – including the United States and Australia – possess leading indicators which incorporate several gauges of economic activity meant to provide advance warning of potential recessions or economic upturns. Statistics Canada halted issuance of its leading indicator last May amid budget cuts at the agency. In a press release, Philip Cross, the institute's research and editorial coordinator, remarked: 'The new index tracks nine components ranging from financial markets to housing to manufacturing. The LEI will provide as much as six months advance warning of significant changes in Canada's economic performance."

- Front Page Headline, Globe and Mail – **"German Economists Cut Domestic GDP Forecasts.** In a report for the German Economy Ministry, leading economic research institutes are cutting their domestic GDP forecasts in half, predicting only 1% GDP growth for 2013. 'Financial woes in other euro zone nations are weighing on business confidence in the European Union's largest economy, reducing spending on new equipment and production facilities; both key components of GDP growth. Germany's economic growth is at risk if euro zone leaders don't increase their efforts to control the sovereign debt crisis. Voters in more financially solid countries are becoming restless about being forced to support bailout loans like the ones which rescued Greece, Portugal and Ireland. Domestic debates in Germany and Finland, where voter skepticism about bailouts runs high, have shown that the readiness to increase assistance, or make transfers is evaporating."

Friday, October 12th

- The Beijing-based General Administration of Customs reports China's trade surplus expanded to $27.7 billion (U.S.) in September from $26.7 billion (U.S.) in August, citing a 9.9% increase in exports on a year-over-year basis to $186.4 billion (U.S.)

- Thomson Reuters and the University of Michigan report their preliminary index of U.S. consumer sentiment rose to a reading of 83.1 in October from a level of 78.3 in September, the highest reading in exactly 4 years
- The Labor Department reports the U.S. producer price index (PPI) rose by 1.1% in September on a seasonally adjusted basis, citing a surge in energy costs; while noting the core rate (ex food and energy) increased by 2.3% on a year-over-year basis
- Eurostat, the European Union's statistics office, reports euro zone industrial production rose by 0.6% in August, citing higher output by French and Italian factories of durable consumer goods



Percentage change in U.S. household net worth Source: Business Insider

CLOSING LEVELS FOR FRIDAY, OCTOBER 12		WEEKLY CHANGE
Dow Jones Industrial Average	13,328.85	– 281.30 points
Spot Gold Bullion (December)	$1,759.70 (U.S.)	– $21.10 per oz.
S&P / TSX Composite	12,202.04	– 216.95 points
10 - Year U.S. Treasury Yield	1.66%	– 9 basis points
Canadian Dollar	102.11 cents (U.S.)	– 0.11 cent
U.S. Dollar Index Future (Spot Price)	79.681 cents	+ 0.345 cent
WTI Crude Oil (November)	$91.86 (U.S.)	+ $1.98 per barrel

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