LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, December 3rd

Front Page Headline, Bloomberg News – **"Greece Issues 10 Billion Euro Redemption Offer to Bondholders.**

Monday, December 3rd

In an attempt to reduce the country's outstanding sovereign debt, Greece's Public Debt Management Agency offers bondholders of maturities ranging from 2023 to 2042 – issued earlier this year – an opportunity to redeem their holdings at an average price equivalent to 33% of face value until December 7th. In a note to clients, Valentin Marinov, a portfolio strategist at Citigroup, wrote: 'The (redemption) offer is part of a package of measures approved by (European Union) finance ministers last week to reduce Greece's outstanding debt to 124% of gross domestic product (GDP) by the year 2020 from a projected 190% in 2014. Not only, would the 10 billion euro redemption offer enable Greece to retire 30 billion euros of (outstanding) debt, but also, its success is crucial to the release of 44 billion euros of bailout aid which has been frozen since June."

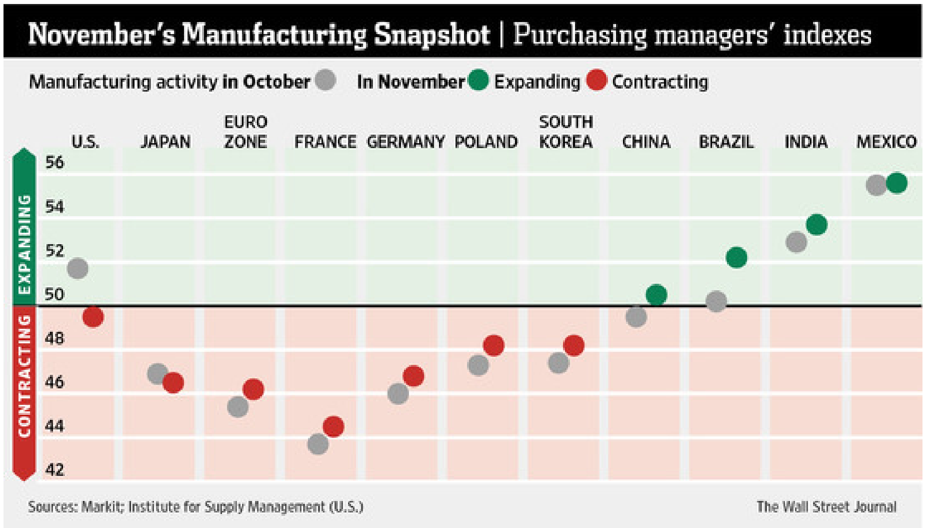
- HSBC reports its final Chinese purchasing managers' index (PMI) for November rose to a reading of 50.5 from 49.5 in October – a 13 month high – citing new domestic and export orders were higher, while backlogs of work and inventories declined. In a press release, Qu Hongbin, an economist at HSBC in Hong Kong noted: 'The November PMI confirms that China's economy continues to recover gradually. We expect GDP growth to rebound modestly to about 8% in the 4th. quarter, as the (monetary policy) easing measures continue to filter through."

- Front Page Headline, Wall Street Journal – **"Fiscal Cliff Talks at Stalemate.** Both the White House and congressional Republicans offer compromises, but are still far from cementing an agreement over how to design a deficit reduction package, with just a few weeks remaining before the country hits the fiscal cliff. Political leaders on both sides remained steadfast in their positions during interviews which aired on Sunday, blaming each other for the current standoff and reflecting that talks have gone nowhere. U.S. Treasury Secretary Timothy Geithner suggested: 'It's obviously a little difficult for Republicans right now and they're trying to determine where they go next. So we might need to give them a little time."

- Front Page Headline, Financial Times – **"Audit Firms Face SEC China Crackdown.** The U.S. Securities and Exchange Commission has charged the Chinese affiliates of five leading accounting firms with violating securities laws for refusing to produce paperwork related to investigations into accounting fraud at nine Chinese companies. The Chinese affiliates of Deloitte, Ernst and Young, KPMG, PwC and BDO were charged with violating the U.S. Securities Exchange Act and the Sarbanes-Oxley Act. The laws require foreign public accounting firms to provide the SEC with paperwork involving any U.S. traded company. Robert Khuzami, the director of the SEC's enforcement division, elaborated: 'Only with access to work papers of foreign public accounting firms can the SEC test the quality of the underlying audits and protect investors from the dangers of accounting fraud. (Accounting) firms which conduct audits knowing they cannot comply with laws requiring access to these work papers face serious sanctions.' To date, 50 China-based companies have been delisted from U.S. exchanges. The SEC has filed fraud allegations against 40 individuals or companies."

- Front Page Headline, Daily Telegraph U.K. – **"French Economy Implodes as Car Sales Collapse.** Markit Economics reports its purchasing managers' index (PMI) for France's manufacturing sector declined to a reading of 44.5 in November and is now the weakest in the euro zone after Greece. Sovereign debt strategist Nicholas Spiro commented: 'The French PMI figures for November are shocking. France has been sailing dangerously close to the wind for some time, but is now tipping into outright (GDP) contraction.' Sales of French cars declined by 28% in November on a year-over-year basis, with Citroen sales down 26% and state-owned Renault sales down 33%. The Committee of French Automobile Producers (CCFA) concurred that this has been the worst year for the French car industry since 1997, with little chance for recovery in 2013 as Paris embraces a policy of scorched-earth fiscal tightening of 2% of GDP to meet European Union deficit targets. The severity of the decline stunned analysts and suggests that France has finally been engulfed by the festering (sovereign debt) crisis advancing across the Mediterranean region. The French automobile industry is still a pillar of the economy, employing 400,000 workers, but has been losing market share at an accelerating pace over the last decade. Output has declined from 3.5 million vehicles in 2005 to nearly 2 million this year. France became a net importer of cars for the first time four years ago."

- The Institute for Supply Management's index of U.S. manufacturing activity declined to a reading of 49.5 in November, the lowest level in more than 3 years. Bradley Holcomb, chairman of the ISM's manufacturing survey panel, commented: "Uncertainty over the fiscal cliff (issues) is the big concern right now. People are taking any and all measures to reduce costs and risks ... by limiting hiring and investment."



Tuesday, December 4th

- The Reserve Bank of Australia (RBA) reduces its overnight cash-lending rate by 1/4 point to an even 3%, citing the high value of the Australian dollar which is negatively impacting the manufacturing and tourism sectors of the economy. In a statement, central bank Governor Glenn Stevens noted: "Given lower export prices and a weaker global economic outlook, the Australian dollar remains higher than might have been expected. Our decision to ease monetary policy reflects Australia's contained wage pressure, lower projected expenditures by mining companies and an unemployment rate at a 2 1/2 year high." Martin Whetton, a fixed-income strategist at Nomura Holdings commented: "The (administered rate) cut is an attempt to smooth the transition from (natural) resources to the broader sectors of the economy which are currency and interest rate sensitive. However, it feels like there's a level of frustration in the RBA's statement about the currency."

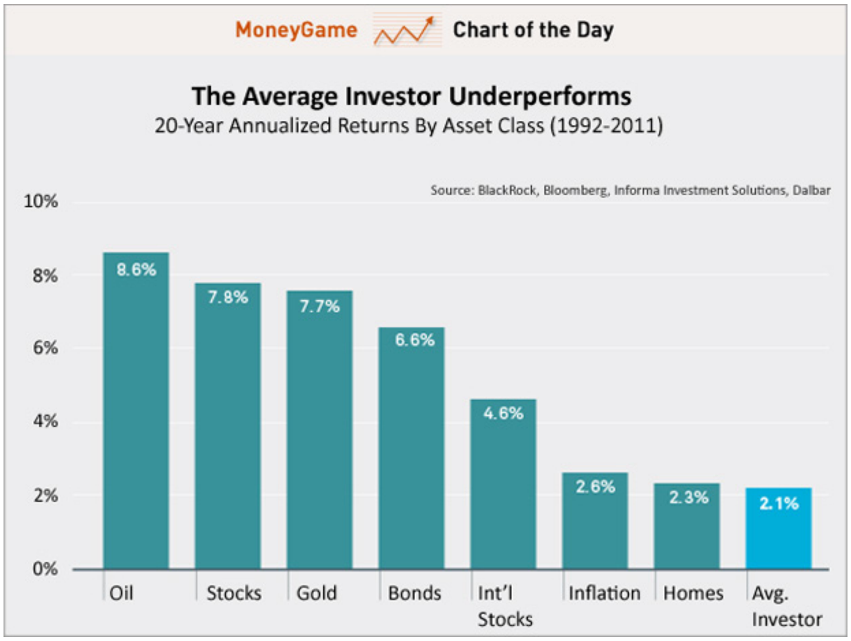
- Following its latest round of monetary policy deliberations, the Bank of Canada leaves its Bank Rate unchanged at 1%, citing: "Although underlying economic momentum appears slightly softer than previously anticipated, the pace of gross domestic product (GDP) growth is expected to accelerate through 2013." **Wakeup call for Bank of Canada Governor Mark Carney: If the U.S. government fails to avoid the impending measures of the 'fiscal cliff' by December 31st your economic expectations for Canada during 2013 will represent nothing but false hope.**

- Spain's Labour Ministry reports the number of people officially registered as unemployed increased by 74,296 in November, bringing the total close to the 5 million mark. The country's unemployment rate – which stood at 25% at the end of September – will be released at the end of December. Michael Hewson, an analyst at CMC Markets, commented: "With Spanish bank aid being conditional on sweeping job cuts in excess of 6,000; as well as bank branch closures across the country, the effects are likely to be felt across the entire Spanish economy, already suffering from sharply declining revenues."

Sagrario Urena reacts next to policemen during her eviction today. Source: Reuters

- Front Page Headline, Wall Street Journal – **"Merkel Launches Bid for Third Term as Chancellor.** Germany's ruling conservative Christian Democratic Union (CDU) party closes ranks behind 58 year-old Angela Merkel with a solid demonstration of unity, boosting her bid for a third term as chancellor by winning 98% of CDU delegates' votes to remain chairwoman. Since Ms. Merkel's public approval rating is close to 70%, a clear majority of voters prefer her as chancellor over the leftist challenger, Peer Steinbruck of the Social Democrats (SPD). However, recent polls give Ms. Merkel's ruling conservatives a smaller lead of only 9 points over the SPD. Despite her personal popularity, the CDU party gleans only 39% support in public opinion polls, insufficient to form a government after the next election in September. **See also, Economic Winter, Will Germany Exit the European Monetary Union? (2) – The Constitutional Court Passes the ESM Baton to the Bundestag, September 21, 2012.**

- Front Page Headline, Business Insider – **"The Average Investor Underperforms.** According to BlackRock Investments, the average investor has performed so poorly that collectively, they've managed to underperform every major asset class over the last 20 years. Volatility is often the catalyst for poor decisions made at inopportune times. Amidst difficult financial periods, emotional instincts often drive investors to take actions which make no rational sense, but make perfect emotional sense. Psychological factors such as fear often translate into poor timing in the execution of trades."



Wednesday, December 5th

- ADP Payrolls Processing estimates U.S. employers added 118,000 private sector jobs in November, citing 114,000 hirings in the services sector. ADP reported Hurricane Sandy cost the U.S. 86,000 jobs, primarily in the manufacturing, retailing and hospitality and leisure industries.

- Front Page Headline, Bloomberg News – **"Citigroup Cuts 11,000 Jobs.** New York-based Citigroup announces 11,000 job layoffs and a $1 billion (U.S.) restructuring charge, citing a reduction of operations in some emerging markets; as well as cutbacks in the institutional clients department which includes trading and investment banking. Chief Executive Officer Michael Corbat elaborated: 'These (reorganization) actions represent logical next steps in Citi's transformation. While we are committed to – and our strategy continues to leverage – our unparalleled network and footprint, we have identified areas and products where our scale does not provide for meaningful returns."

- The Tempe, Arizona-based Institute for Supply Management (ISM) reports its non-manufacturing index rose to a reading of 54.7 in November from a level of 54.2 in October, citing higher sales of automobiles and increased homebuilding activity. Guy Berger, an economist at RBS Securities in Stamford, Connecticut, commented: "The service sector is still advancing and outperforming the manufacturing sector. While retailers were adversely affected by Hurricane Sandy in early November, sales improved during the Thanksgiving weekend."

The ISM services survey includes industries ranging from utilities and retailing, to housing, finance and health care.

Source: Bloomberg News

- Front Page Headline, Daily Telegraph U.K. – **"Boost to British Business to Rescue Economy: Autumn Statement.** The Chancellor of the Exchequer , George Osborne, has placed business at the heart of a last-ditch drive to rescue the U.K. economy before the next general election; with 5.4 billion pounds set aside for roads and schools, a surprise cut in the corporation tax, a tenfold increase in the capital investment allowance and 1.5 billion pounds of support for exporters. Underscoring the dire state of the British economy, the Treasury's independent forecaster – the Office for Budget Responsibility (OBR) – lowered its GDP growth outlook for every year until 2016 and forecast that the chancellor will break his golden rule on the national debt, potentially putting the nation's 'AAA' sovereign debt credit rating at risk. Fitch Ratings confirmed fears by stating that 'missing the GDP growth target weakens the credibility of the U.K.'s fiscal framework, which is one of the factors supporting the rating.' A final decision on the credit rating will be taken next year. The Chancellor also had to pencil in another 5 billion pounds of austerity measures, in order to eliminate the structural deficit by 2018; three years later than scheduled when the Coalition came into power in 2010. Almost 30 billion pounds of austerity measures are now unspecified as they take effect after the current Parliament, posing another risk to the Chancellor's credibility. Seeking to address the concern, George Osborne pledged to set out the Coalition's spending plans 'during the first half of 2013,' in what observers said would amount to an election manifesto and potentially pitch the Tories against the Liberal Democrats."

U.K. Chancellor of the Exchequer George Osborne. Source: Getty Images

- Front Page Headline, Globe and Mail – **"Global Corruption Index Ranks Greece Worst in EU.** Transparency International (TI) reports Greece has scored the worst ranking of all 27 European Union (EU) nations in a global league table of perceived official corruption, falling below ex-communist Bulgaria. TI analyst Jana Mittermaier elaborated: 'The results of the survey should serve as a warning for the EU to require more information and accountability from its member states. This should also apply to current efforts to establish European banking oversight. Weak or inefficient judicial systems, poor public audit services and cozy relationships between government and business, all contribute to perceptions of corruption in some European countries." **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.**

- Front Page Headline, Wall Street Journal – **"White House Draws Hard Line on Debt Ceiling.** The White House is hardening its stance that Congress should raise the U.S. statutory debt limit without preconditions. In remarks to the Business Roundtable, President Obama elaborated: 'I want to send a very clear message to people here: We are not going to play that game next year. If Congress in any way suggests that they're going to tie negotiations to debt-ceiling votes, and take the country to the brink of default once again as part of a budget negotiation – which by the way we have never done in our history until we did it last year – I will not play that game. We've got to break that habit before it starts."

Thursday, December 6th

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 25,000 to 370,000 in the week ended December 1st. while continuing claims fell by about 100,000 to 3.21 million in the week ended November 24th. The number of people who have exhausted their traditional benefits and are now receiving emergency or extended benefits from state or federal programs declined by about 111,000 to 2.05 million in the week ended November 24th.

- Front Page Headline, Wall Street Journal – **"ECB Lowers GDP Forecast for Euro Zone.** At a news conference, European Central Bank President Mario Draghi announced the ECB now expects the euro zone's gross domestic product to contract by 0.3% in 2013, having forecast a GDP growth rate of 0.5% only three months ago. However, Mr. Draghi foresees: 'A combination of improved financial market confidence and the ECB's accommodative monetary policy will help generate an economic recovery later in 2013. Further, the ECB expects euro zone GDP growth to be between 0.2% and 2.2% in 2014.' Prior to Mr. Draghi's news conference, Eurostat – the European Union's statistics agency – confirmed that the combined GDP of the 17 countries in the European Monetary Union shrank by 0.1% in the 3rd. quarter and has not grown over the last 4 consecutive quarters.

- The Economy Ministry in Berlin reports German factory orders – adjusted for seasonal swings and inflation – rose by 3.9% in October, following a revised decline of 2.4% in September, previously reported as 3.3%. In a statement, the Ministry noted: "The considerable October increase in factory orders – the first in three months – markedly tempers the negative trend in industrial demand. However, the economic environment remains weak and industrial production should remain muted in the coming months."

Friday, December 7th

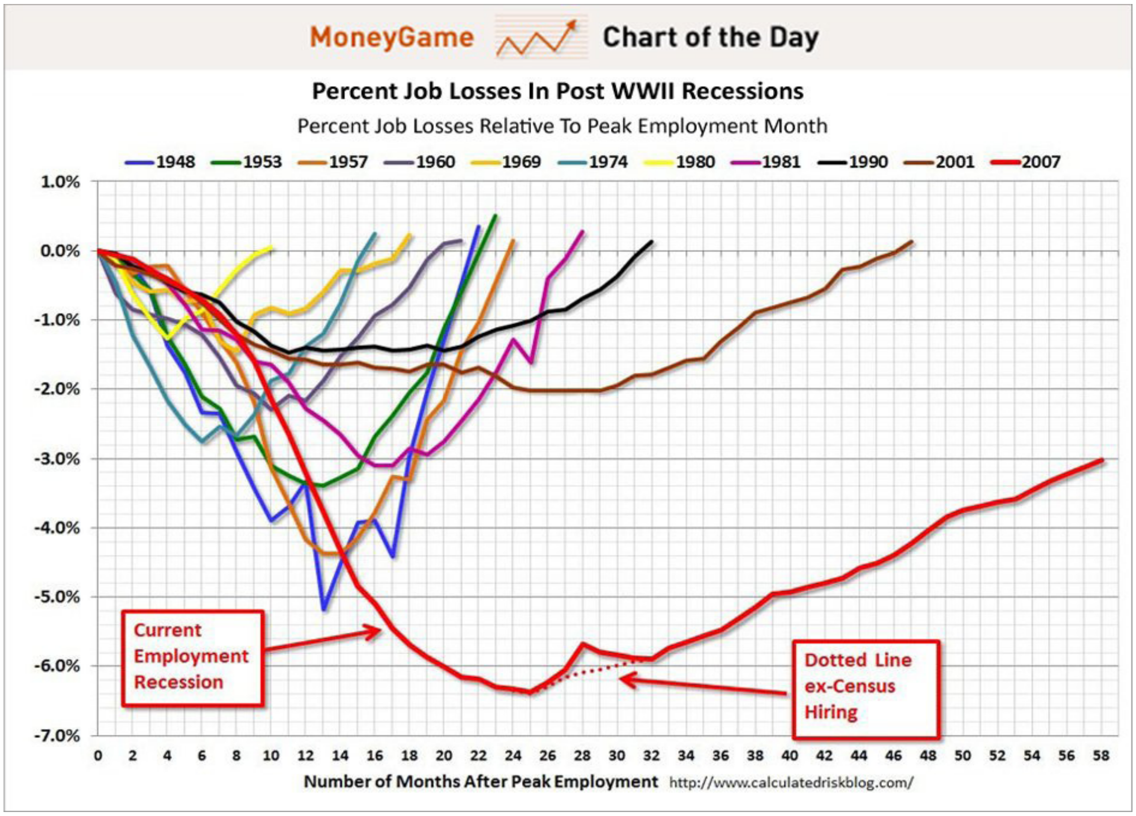
- Statistics Canada reports the nation's unemployment rate declined to 7.2% in November from 7.4% in October as 59,300 jobs – 48,000 in the private sector – were added to the work force

- Greece's national statistics agency reports the country's gross domestic product (GDP) contracted by 6.9% in the 3rd. quarter, compared with the same period in 2011. Separately, as reported in the Daily Telegraph U.K., Greece's three largest banks have agreed to participate in the Greek treasury's government bond redemption program, paving the way for Athens to meet targets on debt reduction set by international lenders.

- In its monthly report, Germany's central bank stated: "The cyclical outlook for the German economy has dimmed and there are even indications that economic activity may decline in the final quarter of 2012 and the first quarter of 2013. Accordingly, the Bundesbank is lowering its forecast for German GDP growth for 2012 to 0.7% from 1% and its GDP estimate for 2013 to 0.4% from 1.6%. In addition, the Bundesbank is raising its unemployment outlook to 7.2% from 6.8% for 2012, however, the labour market will come through the economic slowdown in good shape."

- The Thomson Reuters / University of Michigan preliminary U.S. consumer sentiment index declined to a reading of 74.5 in December, following a level of 82.7 in November. The group's gauge of consumer expectations fell to a one-year low, citing household concerns that lawmakers will fail to avert the so-termed 'fiscal cliff' of higher taxes and government spending cutbacks set for 2013.

- The Labor Department reports U.S. non-farm payrolls increased by 146,000 in November while the official unemployment rate declined to 7.7% from 7.9% in October.



- Front Page Headline, Wealth Daily – **"The Fear of a Global Economic Collapse.** 'The problems which caused the original financial crisis a few years ago are still rampant. With no real way to combat them, global governments have done what any family would do: they're protecting their own. Above all, that means politicians and bankers ... and many executives and companies are in the inner circle. That's why instead of bailing out the middle class, trillions (of dollars) have been spent bailing out banks and corporations. Have you seen any benefits from that? These men (can) see the writing on the wall. After all, they drew up the plans for it. Now that it has run out of control, they've gone into protective mode, caring only about themselves at all costs. This is why Jon Corzine stole clients' money. This is why Zuckerberg and his banking underwriters took the money and ran from the Facebook IPO, leaving the common folks holding the bag as always. It's why HSBC laundered money for drug cartels, terrorists and rogue states. It's why Barclay's, JP Morgan, Bank of America, Citibank and Deutsche Bank conspired to manipulate the London Interbank Offered Rate (Libor), controlling the 'free market' of $360 trillion (U.S.) worth of loans and financial contracts worldwide. These things erode your way of life, your purchasing power and your ability to succeed financially. Not only are they aware of this ... but also, it's their goal. They see you and me as their meal ticket. They make their billions and million dollar bonuses by pushing bad loans on you, charging crazy fees, inventing products you can't understand, or benefit from (credit default swaps, derivatives, flash trading) or outright stealing. The people sworn to protect you – a.k.a. the U.S. Congress – are either in on the ruse, or on the payroll. However, instead of envelopes of cash, we call it 'campaign financing' or 'lobbying."

- Front Page Headline, Globe and Mail – **"Ottawa Builds Fence Around Oil Sands.** Canadian Prime Minister Stephen Harper announces his government has approved two controversial acquisitions by Asian companies of domestic oil and gas producers Nexen Inc. and Progress Energy Resources Corp., but essentially, it has barred state-owned companies from buying some of Canada's biggest energy companies; such as, Suncor Energy or Cenovus Energy. At a Parliament Hill news conference, the Prime Minister asserted: 'When we say that Canada is open for business, we do not mean that Canada is for sale to foreign governments.' Assuredly, Mr. Harper has delivered a clear and unambiguous statement that Canada will welcome foreign investment on its own terms; even as powerhouse state-owned companies from emerging markets like China increasingly gain influence in the global marketplace.

  The New Rules:

  1. State-controlled investors are barred from new takeovers in Canada's oil sands, to be found to be of net benefit on 'an exceptional basis only.

  2. Ottawa will raise the threshold at which it reviews foreign takeovers by private sector bidders to $1 billion (CAD), over the next 5 years

  3. The bar remains at $330 million (CAD)for foreign state-owned enterprises

  4. 'Free enterprise principles' will be considered in reviews where the investor is owned, controlled or influenced by a foreign state.

- Front Page Headline, Daily Telegraph U.K. – **"U.K. Manufacturing Output Drops Sharply in October.** The Office for National Statistics reports U.K. manufacturing output declined by 1.3% in October, following a downwardly revised flat reading for September; citing 'the production of food, beverages and tobacco was particularly weak, pressured by a lower demand for beer.' Andrew Goodwin, an economic advisor to the Ernst and Young ITEM Club commented: 'The impact in overall production having been mitigated by the sharp rise in utilities output, notwithstanding, the production sector is likely to be a sizeable drag on gross domestic product (GDP) growth in the 4th. quarter. With the services sector only growing very slowly, this is likely to be enough to force GDP growth into negative territory once more.'

A factory machinist at work in a U.K. manufacturing plant. Source: Daily Telegraph U.K.

- Front Page Headline, Mineweb – **"Gold and Silver: the 'Go-To' Assets for Capital Preservation.** In his Thunder Road Report, economics writer Paul Mylchreest reveals his belief in the Kondratieff or Long Wave economic theory ... Ranging from approximately 40 to 60 years, the long term economic cycles consist of alternating periods between high sectoral (economic) growth and periods of relatively slow GDP growth ... In the executive summary of his latest report entitled Inflation / Deflation: Mylchreest outlines the creation of a new bubble in debt, and looks at the way excessive monetary stimulus – coupled with low interest rates – creates financial bubbles and concludes that central banks are now creating the ultimate debt bubble, in an attempt to counter what he sees as the downward leg in the most recent long wave (economic) cycle ... In reference to the quantitative easing (QE) policies being followed by most major governments and central banks, Mylchreest notes: 'This is the biggest debt bubble in history. Each time deflationary forces reassert themselves, offsetting inflationary forces (monetary stimulus in some form) must be correspondingly more aggressive to keep systemic failure at bay. The avoidance of a typical deflationary resolution of this long wave is incubating a coming wave of inflation. This will not be the conventional 'demand pull' inflation understood by most economists. The end game is an inflationary currency crisis, dislocation across credit and derivative markets, and the transition to a new monetary system, with a new reserve currency replacing the U.S. dollar. **This makes gold and silver the 'go-to' assets for capital preservation."**

CLOSING LEVELS FOR FRIDAY, December 7th		WEEKLY CHANGE
Dow Jones Industrial Average	13,155.13	+ 129.55 points
Spot Gold Bullion (February)	$1,705.50 (U.S.)	– $7.20 per oz.
S&P / TSX Composite	12,159.59	– 79.77 points
10 - Year U.S. Treasury Yield	1.62%	– 3 basis points
Canadian Dollar	100.91 cents (U.S.)	+ 0.27 cent
U.S. Dollar Index Future (Spot Price)	80.408 cents	+0.448 cent
WTI Crude Oil (February)	$85.93 (U.S.)	– $2.98 per barrel

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