Monday December 10, 2012

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, December 10th

Front Page Headline, Bloomberg News – **“Mario Monti Plans to Tender Resignation as Italy’s Prime Minister.**

Monday, December 10th

Following former Prime Minister Silvio Berlusconi’s withdrawal of support for his government, Prime Minister Mario Monti announces he will resign his position when parliament passes his budget plan later this month. At a press conference in Oslo, Mr. Monti asserted: ‘I am very confident that Italian elections when they come (possibly as soon as February) will give room to a coalition or government that will be, in my view, a highly responsible European Union oriented government; which will be in line with the huge efforts already pursued by Italy.”

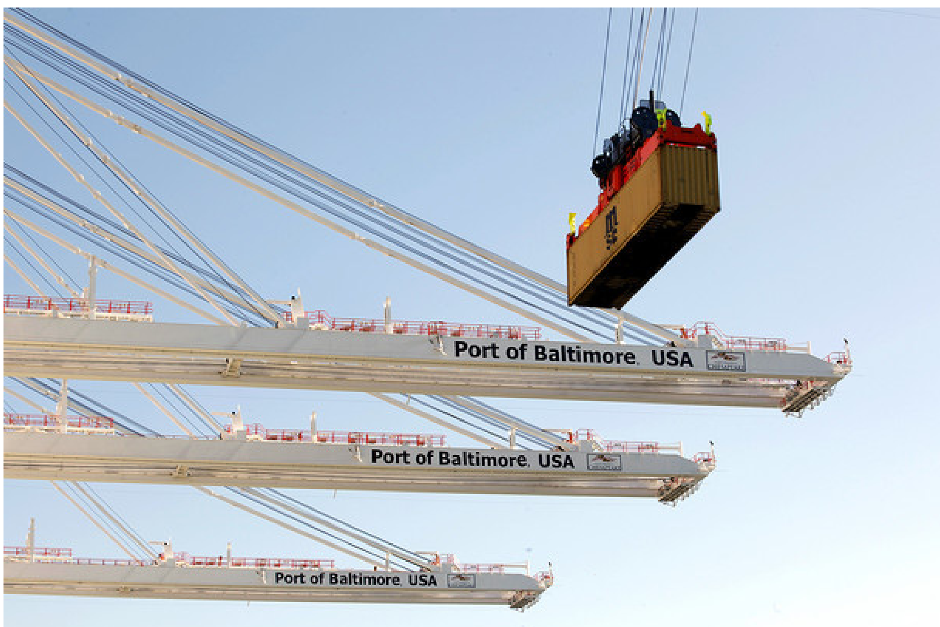
- The Chinese government reports the country’s factory output rose by 10.1% in November on a year-over year basis compared with October’s increase of 9.6% while retail sales increased by 14.9% in November, up from October’s level of 14.5%. Separately, as reported in the Wall Street Journal, a private survey of 8,000 Chinese households – conducted by Gan Li, an economics professor at South Western University of Finance and Economics in Chengdu – reveals China’s urban unemployment rate reached 8.05% in September, nearly twice as high as the official rate of 4.1%

Unemployed crowd job fair in Nanjing in November Source: Reuters

- Front Page Headline, Globe and Mail – **S&P Affirms Canada's 'AAA' Sovereign Debt Credit Rating.** In a statement, Standard & Poor's analyst Nikola Swann cited: 'The ratings on Canada reflect S&P's opinion of the country's relatively diversified and resilient economy; as well as its effective and predictable policymaking and political institutions. Canadian authorities have a strong track record in managing economic and financial crises and delivering economic growth. During the recent global financial crisis and recession, no Canadian financial institution required a government injection of capital; and Canadian real GDP per capita growth exceeded U.S. growth in almost every year of the 2007-2011 period."

Tuesday, December 11th

- The Commerce Department reports the U.S. trade deficit widened by 4.9% to $42.2 billion (U.S.) in October from a downwardly revised $40.3 billion (U.S.) in September, previously reported as $41.5 billion (U.S.). The value of American exports fell to $180.5 billion (U.S.) – the lowest since February – as soybean exports dropped by $1.13 billion (U.S.) and aircraft sales declined by $1.02 billion (U.S.). Exports of engines, industrial machinery and petroleum products also registered declines.



A container is hoisted during testing of new cranes delivered from China to the Port of Baltimore, Md. Source: Bloomberg

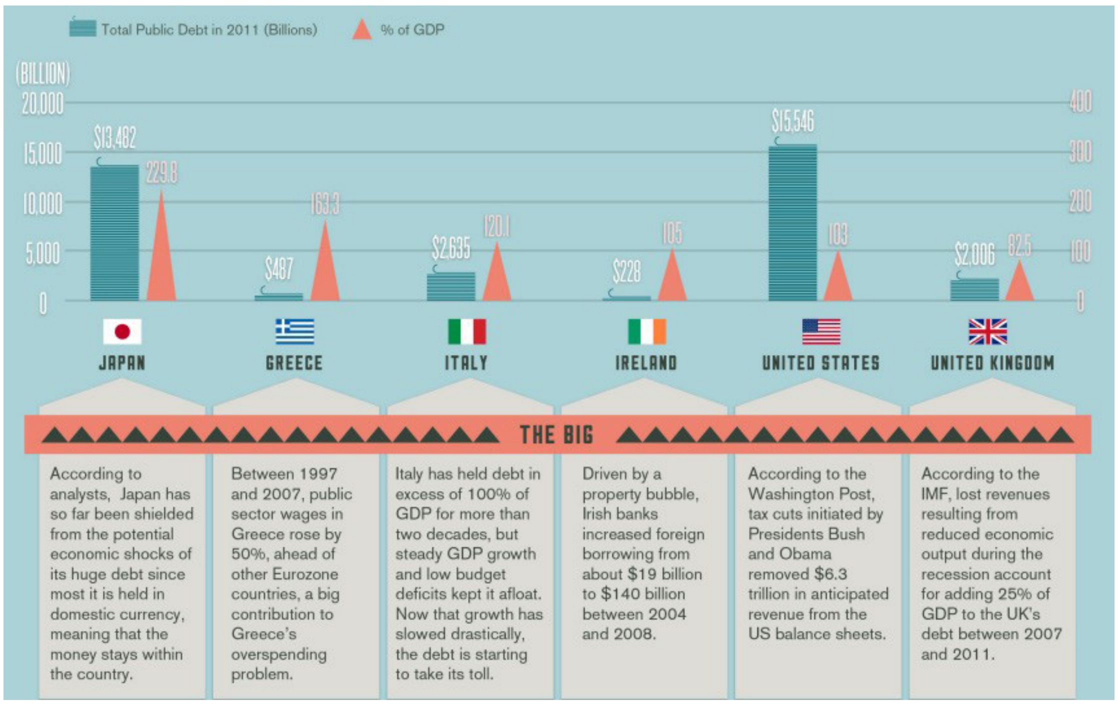
- The ZEW Center for European Economic Research in Mannheim reports its index of investor and analyst expectations – which aims to predict economic developments six months in advance – rose to a reading of 6.9 in December from a level of minus 15.7 in November. ZEW President Wolfgang Franz commented: "While Germany's economy will continue to slow down into 2013, it will not have to face a recession. However, that's only as long as the (sovereign debt) crisis in the euro zone doesn't deepen again."

- In a settlement which includes a deferred prosecution agreement with the United States Department of Justice, HSBC Holdings Plc – Europe's largest bank – agrees to pay a record $1.92 billion (U.S.) in fines to settle money laundering probes with Iran, Burma, Libya and Sudan. Lewis Wan, chief investment officer at Pride Investments in Hong Kong commented: "although this has removed an uncertainty, it doesn't clear the path completely for HSBC. Regulators have been tightening their oversight of banks, so lenders like HSBC must continue to strengthen their compliance (operations)."

Monday December 10, 2012

- Statistics Canada reports the nation's merchandise trade deficit contracted to $169 million (CAD) in October, following a downwardly revised deficit of $1 billion (CAD) in September; citing a significant decline in imports in 7 of 11 categories. In a research note to clients, Sal Guatieri, an economist with the Bank of Montreal concluded: "Although export growth remains weak, the decline in imports enabled the deficit to narrow. With the U.S. facing uncertainty driven by the fiscal cliff, Canadian exports will likely remain challenged into next year."

- Front Page Headline, Daily Telegraph U.K. – **"Greek Bond Redemption Initiative Misses Target.** Greece's debt redemption effort attracted bids totaling 31.8 billion euros – exceeding its 30 billion euro target – however, the average transaction price for the bonds was slightly above 33 1/3% of face value, resulting in the initiative having a shortfall of about 450 million euros, leading to outstanding debt declining to 126.6% of gross domestic product (GDP) by 2020. Speaking to Reuters, a banker stated it would not be difficult to find additional bondholders who might sell their holdings to account for the shortfall: 'Since they have not tendered all of their holdings, the amount could be tapped from German bad banks."



Source: Daily Telegraph U.K.

Wednesday, December 12th

- Following a two-day meeting in Washington, the Federal Open Market Committee (FOMC) confirmed that it had agreed to leave the Federal Funds rate in the 0-0.25% range until the official unemployment rate declines to 6.5% and as long as its one-year to two-year outlook for the inflation rate remains within a half percentage point of the central bank's 2% target. The FOMC also stated it will expand its quantitative easing (QE) program in 2013, via additional monthly purchases of $45 billion (U.S.) of U.S. Treasurys with maturity dates ranging from 4 to 30 years. Furthermore, the FOMC pledged to continue buying $40 billion (U.S.) of agency mortgage-backed securities on a monthly basis. In a statement the FOMC declared: "The FOMC remains concerned that without sufficient (monetary) policy accommodation, (domestic) economic growth might not be sufficiently strong to generate sustained improvement in labour market conditions. If the outlook for the labour market does not substantially improve, the FOMC will continue its purchases of U.S. Treasurys and agency mortgage-backed securities; plus employ its other policy tools as appropriate, until such (employment market) improvement is achieved within the context of price stability."

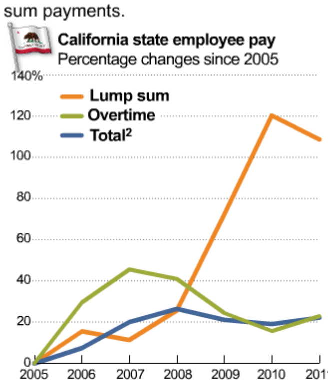
- The Office for National Statistics reports U.K. jobless claims fell by 3,000 to 1.58 million in November while the unemployment rate held unchanged at 7.8%. Employment Minister Mark Hoban noted: "While today's figures demonstrate the resilience of the private sector, there's more work to be done and the government is not complacent."

- Front Page Headline, Bloomberg News – **"California Leads Public Pay Giveaway**. Payroll data compiled by Bloomberg on 1.4 million public employees in the 12 most populous American states reveal that California has set a pattern of lax management, inefficient operations and out-of-control costs. From coast to coast, U.S. states are cutting funding for schools, public safety and the poor, as they struggle with the fallout left by politicians who made pay and pension promises which taxpayers couldn't afford. David Crane, a public policy lecturer at Stanford University exclaimed: 'This (situation) was completely avoidable. All it took was for political leaders to think more about the general population and the future, rather than their (own) political futures. Citizens should be mad as hell and they shouldn't take it anymore."

California State Workers Earn More Than Counterparts

California public employees earned the most of the 12 most populous U.S. states in 2011 for almost every type of compensation, including wages, overtime, extra duty and one-time lump sum payments.

State data in 2011	Number of state employees[1]	Average pay per state employee	Pay, in millions Overtime	Pay, in millions Lump sum
California	**245,593**	**$60,317**	**$963.9**	**$274.5**
New York	187,894	55,650	415.1	65.7
New Jersey	94,973	54,064	189.2	19.4
Illinois	76,236	51,387	N.A.	N.A.
Michigan	58,434	49,022	128.3	34.9
Ohio	66,510	48,812	108.4	61.3
North Carolina	81,315	41,878	44.4	24.1
Pennsylvania	106,634	39,868	216.5	90.8
Virginia	77,716	36,004	64.1	17.8
Texas	186,891	35,442	128.7	34.5
Florida	145,614	34,481	51.6	61.3
Georgia	71,111	28,682	12.3	23.3



1 – Non-university employees as provided by the states 2 – Includes regular, overtime, lump sum and other pay
Source: 2011 payroll data provided by the states and compiled by Bloomberg News
Graphic: Rachel J. Yu BGOVgraphics@bloomberg.com

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Thursday, December 13th

- The Labor Department reports the U.S. producer price index (PPI) declined by a seasonally adjusted 0.8% in November, citing lower energy costs, while the core rate – excluding food and energy – rose slightly by 0.1%

- According to Irvine-based Realty Trac, home seizures by U.S. banks rose by 5.4% to 59,134 units in November compared to 56,124 in November 2011. In an interview, Realty Trac Vice President Darren Blomquist commented: "Lenders have finally figured out how to play the foreclosure game in this new world where they're under a lot more scrutiny. Everybody involved in the foreclosure industry is getting a better handle on how to manage these properties, (in order) to create a more managed and stable flow."

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 29,000 to 343,000 in the week ended December 8th. while continuing claims fell by 23,000 to 3.2 million in the week ended December 1st. Those people who have exhausted their traditional benefits and are now receiving emergency or extended benefits from state or federal programs increased by about 189,000 to 2.23 million in the week ended November 27th.

- The Commerce Department reports U.S. retail sales rose by 0.3% in October, following an offsetting decline in September, citing a higher demand for automobiles, electronics and apparel

- Front Page Headline, Globe and Mail – **"Greece Awarded New EU Bailout Aid.** The euro zone agrees to provide Greece with 50 billion euros ($64 billion U.S.) in long-delayed bailout aid to Athens, thereby, avoiding a catastrophic default for the present. At a Brussels news conference, Jean-Claude Juncker, chairman of the 17-nation Eurogroup of finance ministers espoused: 'We are convinced that the (Greek) program is back on a sound track. Money will be flowing to Greece as soon as next week." **Wakeup call for Mr. Juncker: In your wish list to Santa Claus, there's no need to include a new pair of rose-coloured glasses – the ones you're currently wearing are working just fine. 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. www.longwavegroup.com/publications/economic_winter/economic_winter.php**

- Front Page Headline, Globe and Mail – **"Alarm Sounded on British Columbia's Debt.** Moody's Investors Service cautions it is lowering the outlook for British Columbia's 'AAA' credit rating from stable to negative, citing the Province's softening economy. Jennifer Wong, an assistant vice president at Moody's elaborated: 'Despite an uncertain economy, British Columbia possesses the fiscal flexibility to recover. The negative (credit rating) outlook reflects Moody's assessment of the risks to the Province's ability to reverse the recent accumulation in debt with the softened economic outlook, weaker commodity prices and continued (budget) expense pressures.' The B.C. Liberals have tied part of their political fortunes to nurturing the natural gas industry in the Province, however, continuing low prices for the commodity have dampened enthusiasm within the energy industry and excitement over drilling prospects has gradually evaporated."

- Front Page Headline, Wall Street Journal – **"UBS Faces $1 Billion (U.S.) Fine.** UBS AG (formerly Union Bank of Switzerland) is reportedly close to finalizing a $1 billion (U.S.) settlement with British and American authorities in order to resolve allegations that it attempted to manipulate benchmark interest rates, such as the London Interbank Offered Rate (Libor). The settlement would conclude long-running investigations of UBS being conducted by the U.S. Commodity Futures Trading Commission (CFTC), the U.S. Department of Justice and the U.K. Financial Services Authority (FSA); as well as Swiss regulators."

- Front Page Headline, Wall Street Journal – **"EU Reaches Bank Supervisor Agreement.** European Union finance ministers arrive at a landmark agreement that would bring many of the continent's banks under the supervisory auspices of the European Central Bank. German Finance Minister Wolfgang Schauble predicted: 'EU national parliaments will be able to ratify the new supervisor by the end of February, so operations could begin shortly thereafter.' Once empowered, the ECB will be able to force banks to raise their capital positions and even close down unsafe lenders."

German Chancellor Merkel and French President Hollande confer at EU summit in Brussels. Source: New York Times

- Front Page Headline, National Post – **"Encana / PetroChina Form $2.18 Billion (CAD) Joint Venture.** Canadian natural gas giant Encana Corp. and a subsidiary of PetroChina announce they have formed a joint venture to work together in the Duvernay area, a promising natural gas formation in west-central Alberta. The Chinese company will invest $2.18 billion (CAD) for a 49.9% interest in the joint venture."

- Front Page Headline, Financial Times – **'S&P Lowers Outlook on U.K. Credit Rating.** Standard & Poor's becomes the last of the big three rating agencies to lower the outlook on the U.K.'s 'AAA' sovereign debt credit rating to negative from stable. In a statement, S&P noted: 'The negative outlook reflects our view of a 33% chance that we could downgrade the rating within the next two years if the U.K.'s economic and fiscal performances weaken beyond our current expectations. While we commend the government's commitment to implementing its fiscal mandate and the high demand for U.K. gilts, we must warn that general government debt risks approaching 100% of the national income – a level we believe is rarely compatible with a 'AAA' credit rating."

Friday, December 14th

- The Labor Department reports the U.S. consumer price index (CPI) declined by 0.3% in November, citing lower prices for gasoline as the main factor, while the core rate – excluding food and energy – rose slightly by 0.1%.

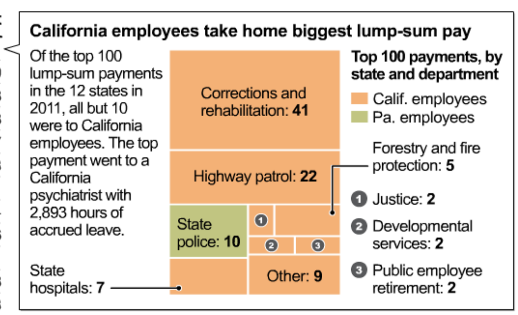
- The Federal Reserve reports U.S. industrial production at factories, mines and utilities increased by 1.1% in November, following an upwardly revised decline of 0.7% in October. Manufacturing – representing about 75% of total production – increased by 1.1%, the most this year. In a statement, the Fed noted: "The surge in November's industrial production is estimated to have largely resulted from a recovery in production for industries that had been negatively affected by Hurricane Sandy."

- Front Page Headline, Bloomberg News – **"Californian's $609,000 Cheque Reveals True Cost of Retirement.** When psychiatrist Gertrudis Agcaoili retired last year from a state mental hospital in Napa, California, she took with her a $608,821 (U.S.) cheque for unused leave, banked over a career which spanned three decades. According to payroll data for 1.4 million public workers compiled by Bloomberg, in excess of 111,000 people who left jobs as employees of the 12 most populous American states, collected $711 million (U.S.) in 2011 for unused vacation and other paid time off."

State Employees Cash in on Lump-Sum Retirement Checks

More than 111,000 government employees working for the 12 most-populous states collected $711 million in 2011 for unused vacation and leave accrued over their careers. A California psychiatrist took home the largest lump-sum payment.

	2011 payments	Average	Top payment
Calif.	**19,454**	**$14,110**	**$608,821**
N.J.	2,277	**8,539**	15,000
Ohio	7,230	**8,475**	120,648
Ill.[1]	485	**6,482**	58,668
Mich.	6,684	**5,228**	27,257
Pa.	18,250	**4,978**	189,753
Texas	6,996	**4,931**	69,271
N.Y.	13,766	**4,774**	66,074
Fla.	16,074	**3,812**	60,946
N.C.	6,697	**3,604**	49,971
Ga.	7,452	**3,128**	65,108
Va.	5,680	**3,127**	44,783



Source: State payroll data compiled by Bloomberg

1 – Based on data from departments representing 90 percent of state workers.

Graphic: Alex Tribou
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- Front Page Headline, Globe and Mail – **"S&P Downgrades Credit Ratings of Six Canadian Financial Institutions.** Rating agency Standard and Poor's announces credit rating downgrades of one level for the Bank of Nova Scotia, the National Bank of Canada, Central 1 Credit Union, Caisse Centrale Desjardins, Home Capital Group and the Laurentian Bank. In a statement, S&P elaborated: 'We believe the Canadian banking sector is encountering incremental pressure from headwinds facing the Canadian economy ... We also believe that industry risk for the Canadian banking sector is increasing. We expect that intensifying competition for loans and deposits will lead to pressure on profitability growth, especially in banks' retail businesses.' While S&P's downgrade of Scotiabank's credit rating moves the lender to 'A' (High), the TD Bank, CIBC and Royal Bank were all confirmed at their current credit rating level.

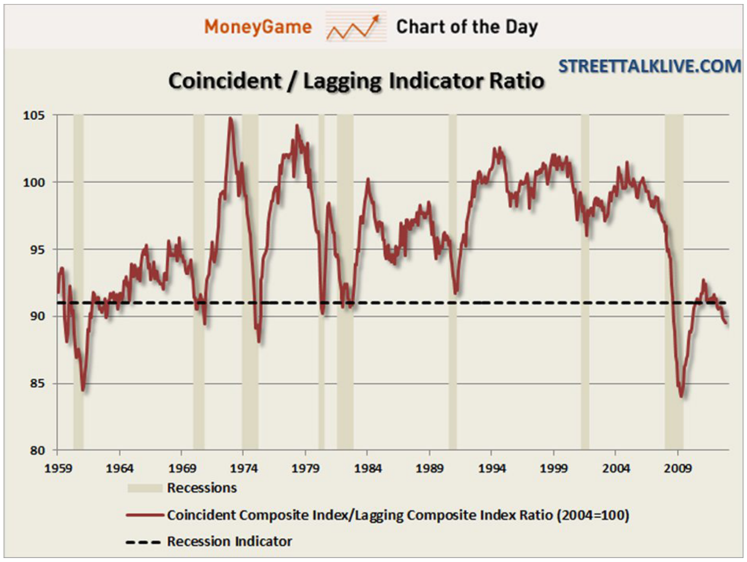
- Front Page Headline, Globe and Mail – **'Spanish House Prices Collapse**. The Spanish government reports the country's housing price index declined by 14.4% in the 2nd. quarter on a year-over-year basis and by 15.2% in the 3rd. quarter, citing the largest regional drop was 17.9% in central Madrid."

- Statistics Canada reports the nation's manufacturing sales declined by 1.4% to $48.8 billion (CAD) in October, citing reduced demand for products and parts from the motor vehicle, aerospace and primary and metal industries. These declines were partly offset by higher sales in the petroleum, coal products and wood product industries.

- HSBC Corp. reports its preliminary Chinese Purchasing Managers' Index (PMI) for December rose to a reading of 50.9 from a level of 50.5 in November

- Front Page Headline, Wall Street Journal – **"Euro Debt Crisis Will Linger: Merkel.** At the end of a two-day summit of European Union (EU) leaders in Brussels, German Chancellor Angela Merkel warned: "The political burdens from this EU transformation process will still be felt next year and perhaps, beyond. A lot has been done, however, there is still a difficult time ahead of us which we cannot resolve with just one fell swoop or single measure. So, we can't let up on our reform zeal. I remain cautious because it will still take years for labour market reforms to boost employment. While euro zone governments have made significant progress cutting deficits, more painful budget cuts are needed next year to keep the currency bloc on track. One thing which has become clear is that confidence in the euro zone is returning as efforts to repair euro zone institutions and pool sovereignty – such as the agreement this week to create a European banking supervisor to strengthen oversight on the region's biggest banks – are implemented. In the past few months, it has become clear to everyone that there is a common determination, not only to keep the euro, but also, to strengthen its foundations. The international community has recognized this and investors now know it." **Wakeup call for Ms. Merkel: Attempts to strengthen EU institutions will fail in EU member states – such as Greece – wherein the nature of commerce and the culture of society continue to be one of corruption and bribery emanating from the public sector. Are things ever going to change in Greece? Probably not without a revolution."**

- Front Page Headline, Business Insider – **"Lagging Indicators Forecast U.S. Recession.** Analyst Lance Roberts of StreetTalkLive presents a chart of the ratio of coincident to lagging indicators from the U.S. Conference Board. Last week, the monthly release of the Leading Economic Indicators revealed the leading-to-lagging indicator ratio declined to a reading of 89.5, matching to lowest level in more than 2 1/2 years. Historically, when the leading-to-lagging ratio has fallen below 91, the U.S. economy was either in, or about to enter a recession. (See chart below)."



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- Front Page Headline, Globe and Mail – **"Connecticut Tragedy Prompts U.S. President Obama to Raise Gun Control Issue:** 'We cannot tolerate this any longer. These tragedies must end.' Pressure is suddenly mounting on President Barack Obama, who campaigned for tougher gun laws in 2008, to finally address the gun control cause following the massacre of 20 Connecticut schoolchildren and 7 adults. A chorus of Senate Democrats, including Dianne Feinstein, Richard Blumenthal and Richard Durbin added their voices to that of New York Mayor Michael Bloomberg in calling for swift action on gun control; while Republicans and the National Rifle Association (NRA) remained silent in the wake of the tragedy. UCLA law professor Adam Winkler commented: 'The political environment on guns may be different today than it was even a few weeks ago. People are angrier than ever before following one of these shootings. The calculus in Washington may be different. President Obama is no longer worried about re-election." **Prof. Winkler is also the author of Gunfight: The Battle over the Right to Bear Arms in America, W.W. Norton & Company, New York, 2011.**

CLOSING LEVELS FOR FRIDAY, December 14th		WEEKLY CHANGE
Dow Jones Industrial Average	13,135.01	– 20.12 points
Spot Gold Bullion (February)	$1,697.00 (U.S.)	– $8.50 per oz.
S&P / TSX Composite	12,296.72	+ 137.12 points
10 - Year U.S. Treasury Yield	1.70%	+ 8 basis points
Canadian Dollar	101.37 cents (U.S.)	+ 0.46 cent
U.S. Dollar Index Future (Spot Price)	79.66 cents	– 0.748 cent
WTI Crude Oil (February)	$86.73 (U.S.)	+ $0.80 per barrel

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