

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

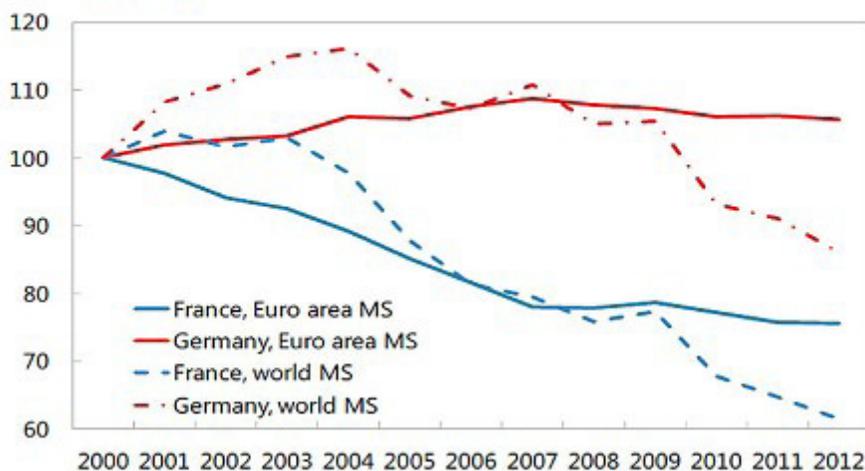


Monday, August 5th
Front Page Headline, Daily
Telegraph U.K. – “**Extended
French Unemployment Crisis
Ahead: IMF.**”

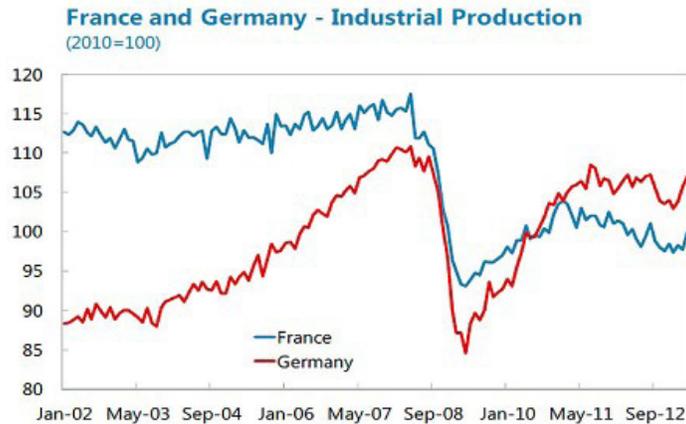
Monday, August 5th Civic Holiday in Canada

In its annual assessment of the French economy, the International Monetary Fund warned: ‘Given the still hesitant (economic) recovery, the French government should ease the pace of (monetary policy) tightening planned for next year, to avoid an economic relapse. The IMF is warning of significant contagion for surrounding states if France’s (economic) growth stalls again.’ (See chart below).

France and Germany - Market Shares (MS)
(2000=100)

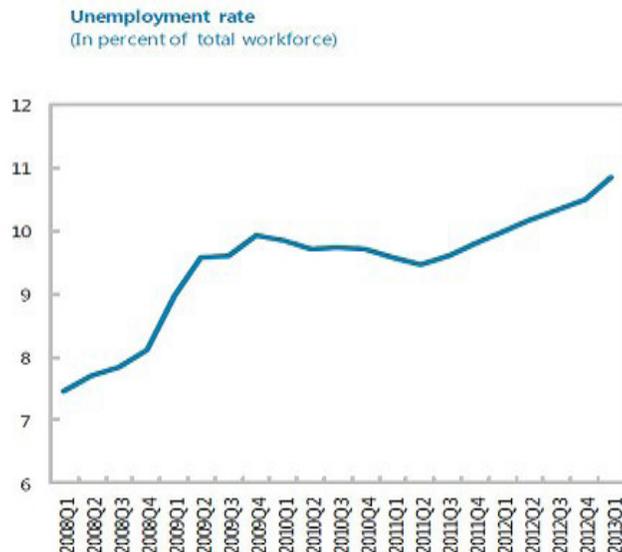


A chorus of French economists had accused France's President Hollande of wishful thinking in proclaiming the financial crisis to be over. Patrick Artus, an analyst at Natixis, noted: 'Recent signs of (economic) stabilization are largely due to restocking and should be treated with great caution. This is not (an economic) recovery.' The Left-leaning Observatoire Economique commented: 'The European Monetary Union (EMU) policy regime remains contradictory and risks pushing France's economy into outright deflation in 2014.'



Source: Daily Telegraph U.K.

The IMF elaborated: 'France's unemployment rate will increase further to 11.6% in 2014 and will not fall below 10.6% during President Holland's five-year term. Moreover, efforts to reduce the budget deficit should focus on spending cuts rather than new taxes, which are among the highest by international standards and have a negative effect on investment and job creation. France will experience an anemic (economic) expansion in 2014, after being trapped in a quasi-economic downturn for almost two years; with economic growth improving slowly to a peak of just 1.9% by 2018. France's labour reforms are not as yet sufficient to reverse the loss of competitiveness, or restore corporate profit margins, currently the lowest in Europe. Recently, France has begun to lose ground to Italy and Spain as they reform their labour systems or reduce wages. The main worry for France is a steady loss of market share, both globally and relative to peers. Indeed, France's net international investment position has deteriorated over the past six years from near balance to minus 22.5% of gross domestic product (GDP), posing a risk to external sustainability. France's public debt will peak at 95% of GDP in 2014 and while that is deemed high risk; if the euro zone economic rebound falters, the country's public debt could jump to nearly 100% of GDP.'



France's unemployment rate since 2008.

Source: Daily Telegraph U.K.

- Front Page Headline, Globe and Mail – “**Extensive Reforms Required in Japan: IMF.** In a new assessment of the Japanese economy, the International Monetary Fund warned: ‘The outlook for Japan’s (economic) growth is subject to significant risks, primarily stemming from incomplete domestic reforms and a weaker external environment. A credible medium term fiscal plan should be adopted as quickly as possible, since fiscal risks have increased further. Incomplete progress on fiscal and structural reforms could weigh on confidence and undermine the success of the (Abe administration’s) new policy framework. While the IMF is forecasting that Japan’s economy will grow by 2% in 2013 – assisted by stronger domestic and foreign demand – we expect it will only expand by 1.2% in 2014, as consumers react to an expected increase in the sales tax. Over the long-term, Japan’s economic growth will likely settle near 1%; as government spending on reconstruction following the March 2011 tsunami is exhausted, taxes increase and the pool of employable workers ages and diminishes.’”
- The Institute for Supply Management’s (ISM) reports its U.S. services industry index rose to a reading of 56 in July – following a level of 52.2 in June – citing the new orders component posting a reading of 57.7 from 50.8 in June, their highest level in five months.
- Front Page Headline, Financial Times – **Washington Post Purchased by Jeff Bezos for \$250 million (U.S.).** Amazon.com founder Jeff Bezos is to buy the Washington Post, ending an era of Graham family control at a newspaper that played a defining role in U.S. history during the Watergate scandal, but struggled to maintain its influence in the age of online news.

Tuesday, August 6th

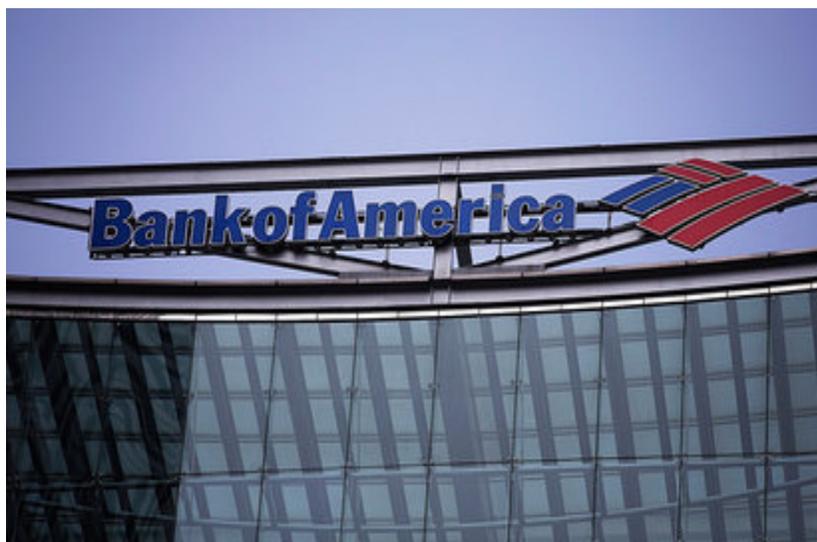
- The Commerce Department reports America’s trade deficit narrowed by 22.4% to \$34.2 billion (U.S.) in June – the lowest level since October 2009 – from a downwardly revised \$44.1 billion (U.S.) in May; citing increased exports of durable goods and petroleum, while imports declined to a 3-month low. Millan Mulraine, a research analyst at TD Securities in New York commented: “While this is exceptionally good news, this level of the trade deficit is unlikely to be sustained given the weak global (economic) growth.”



A fully-loaded container ship departs for the Orient.

Source: Bloomberg

- The Economy Ministry in Berlin reports German factory orders – adjusted for seasonal swings and inflation – rose by 3.8% in June
- Statistics Canada reports the nation's trade deficit narrowed to \$469 million (CAD) in June – compared with \$781 million in May – as merchandise exports grew by 1.4% to \$39.6 billion (CAD) led by aircraft, precious metals, automobiles and light trucks.
- Following its monthly monetary policy meeting, the Reserve Bank of Australia (RBA) announced it is cutting its administered short-term cash lending rate by 1/4 point to 2.5%. In a brief statement, RBA Governor Glenn Stevens acknowledged: "The Board has previously noted that the inflation outlook could provide some scope to ease (monetary) policy further, should that be required to support demand. At today's meeting and taking account of recent information on prices and activity, the Board judged that a further decline in the cash rate was appropriate ... It is possible that the (currency) exchange rate will depreciate further over time, which would help to foster a rebalancing of growth in the economy."
- Front Page Headline, Wall Street Journal – **"U.S. Government Sues B of A over Mortgage-Backed Securities.** The U.S. Department of Justice filed civil charges against Bank of America Corp, alleging the bank defrauded investors by understating the risks associated with \$850 million (U.S.) of mortgage-backed securities it marketed in 2008. In its complaint, the federal government alleges that the bank didn't comply with its own internal underwriting standards when it packaged huge amounts of prime and subprime loans into securities it sold to investors. In total, more than 40% of the 1,191 mortgages didn't comply with the bank's standards. The Justice Department also alleges that the bank concealed important risks associated with the mortgages backing the securities. For example, the bank didn't tell investors that it failed to verify the stated income of some 70% of homeowners and that some 22% of mortgagors were self-employed."



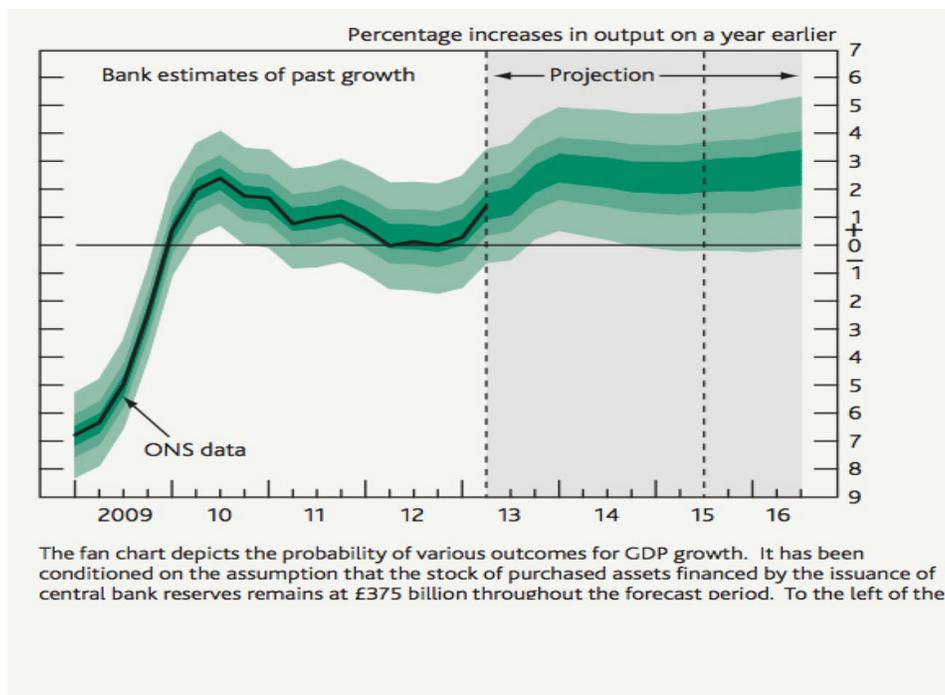
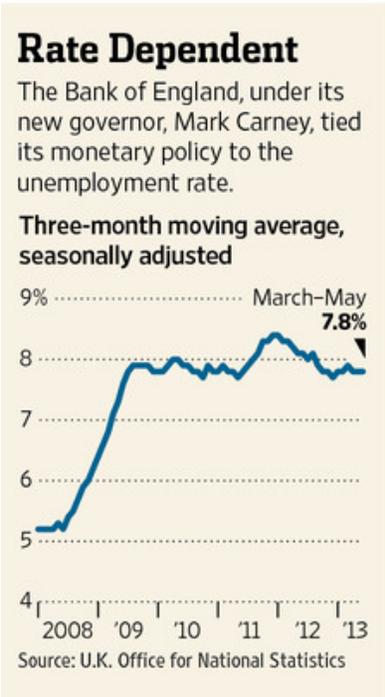
Source: Bloomberg News

- The Office for National Statistics reports U.K. industrial production rose by 1.1% in June

Wednesday, August 7th

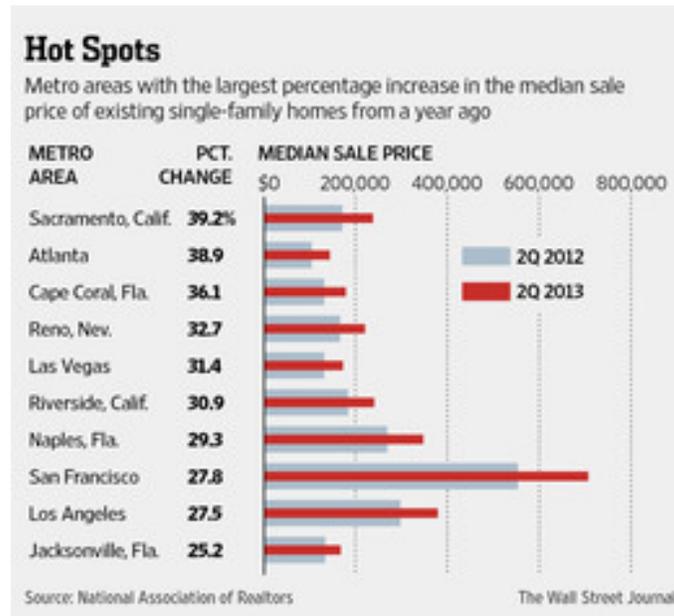
- Statistics Canada reports the value of building permits issued by Canadian municipalities in June totaled \$6.6 billion (CAD) – down 10.3% from May – citing declines in the residential sector in Ontario and the non-residential sector in Quebec. Peter Buchanan, an economist at CIBC observed: "Canadian housing starts may begin to moderate in the coming months from levels which continue to appreciably outpace underlying family formation."

- Front Page Headline, Wall Street Journal – **“BOE Takes a Page from U.S. FOMC Monetary Policy.** In announcing a new monetary policy initiative, Bank of England Governor Mark Carney pledges to keep administered interest rates at a low level and the bank’s bond purchase program at current levels at least until the U.K.’s unemployment rate declines to 7%. Mr. Carney elaborated: ‘The Monetary Policy Committee’s biggest concern is the possibility that as the (economic) recovery gathers pace, there may emerge an unwarranted change in (investor) expectations about the pace of the withdrawal of monetary policy stimulus. That is one of the principal points of providing explicit forward guidance.’ **Wakeup Call for Governor Carney: Is the U.K. inflation rate to be ignored? Mr. Bernanke is not ignoring it in America.**



Thursday, August 8th

- The National Association of Realtors reports U.S. median existing home prices increased in 142 of the 163 metropolitan areas tracked for the survey in the 2nd. quarter. Nine of the ten cities posting the highest year-over-year price growth were in California, Florida or Nevada.

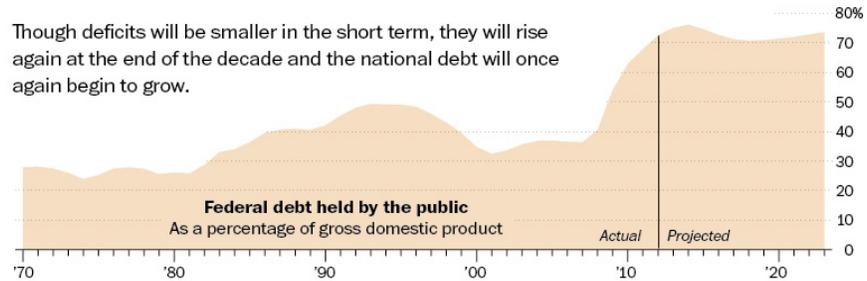
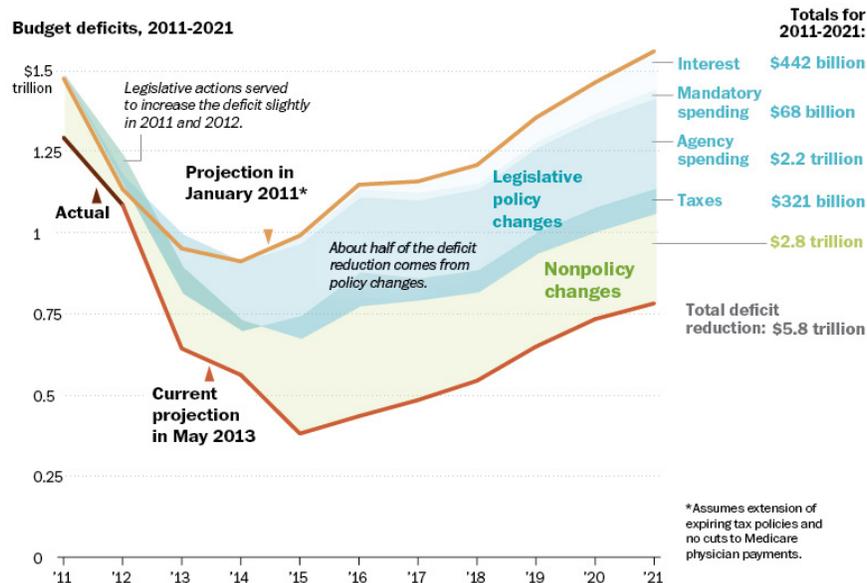


- Front Page Headline, Washington Post – **“JP Morgan Under Investigation by U.S. Justice Department over Mortgages.** JP Morgan Chase – America’s largest bank – reveals it is being investigated by both the civil and criminal divisions of the U.S. Department of Justice, regarding the marketing of mortgage-backed securities prior to the financial crisis of 2008. In a quarterly filing today, JP Morgan revealed that the U.S. Justice Department’s Civil Division notified the bank in May that it had preliminarily concluded that the bank had broken federal laws in offerings of subprime and other non-conforming residential mortgage-backed securities from 2005 through 2007.”



Source: Washington Post

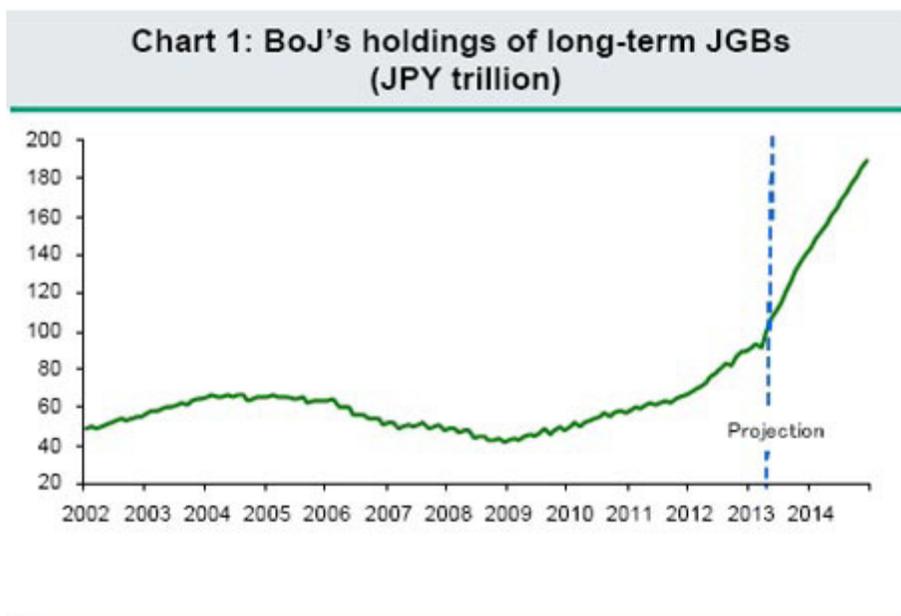
- Front Page Headline, Washington Post – **“Departure of Republican Operatives Risks Debt Limit Outcome.** With another showdown looming over the statutory debt limit as soon as next month, Washington insiders received some unsettling news last month. Rohit Kumar, a Republican aide who has played a key role in warding off disaster, is leaving Capitol Hill. Mr. Kumar is the person who devised the strategy to sell a \$700 billion (U.S.) bank bailout initiative to anxious lawmakers in 2008 when the financial system was collapsing. He’s also the one who figured out how to let conservatives raise the debt limit, while voting against it 2011 when the nation was days away from default. As Congress braces for a possible government shutdown next month, as well as the clear and present danger of default before Thanksgiving, Mr. Kumar, the chief negotiator for Senate Minority Leader Mitch McConnell (R-KY.), is a huge loss. Moreover, he’s just the latest in a surprising exodus of senior GOP staffers, which has worried people in both parties and darkened the outlook for the confrontation this fall. Largely invisible to the public, these are the ‘trench warfare’ people whom the elected bosses trust to negotiate critical deals with Democrats, draft agreements into law and explain them to the GOP rank and file. Losing them now –just weeks before the next battle – not only weakens Republicans, but also, leaves Democrats without familiar negotiating partners.”



Source: Washington Post

Friday, August 9th

- Statistics Canada reports the nation’s employment level declined by 39,400 jobs in July, citing fewer hirings by government and fewer job opportunities for youth. Camilla Sutton, a currency strategist at Scotiabank in Toronto observed: “Obviously, this is a disappointing release on the Canadian jobs front. It highlights some of the fundamentals in the economy, that growth is very moderate and there is a lack of (business) confidence.”
- Front Page Headline, New York Times – **“Japan’s National Debt Surpasses One Quadrillion (1,000,000,000,000,000) Yen.** A quadrillion yen is a mind-boggling one thousand trillion yen.



Source: Daily Telegraph U.K.

CLOSING LEVELS FOR FRIDAY, August 9th

WEEKLY CHANGE

Dow Jones Industrial Average	15,425.51	– 213.05 points
Spot Gold Bullion (December)	\$1,312.20 (U.S.)	+ \$1.70 per oz.
S&P / TSX Composite	12,542.13	– 61.12 points
10 - Year U.S. Treasury Yield	2.58%	– 2 basis points
Canadian Dollar	96.67 cents (U.S.)	+ 0.42 cent
U.S. Dollar Index Future (Spot Price)	81.126	– 0.805 cent
WTI Crude Oil (September)	\$105.97 (U.S.)	– \$0.97 per barrel

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