

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE  
**THAT WAS THE WEEK THAT WAS**



**Monday, January 14th**  
Front Page Headline, Bloomberg  
News – “President Obama Warns  
of Chaotic Markets if U.S. Debt  
Ceiling Not Raised.”

Monday, January 14th

In a White House press conference President Barack Obama warns Congress against using the U.S. statutory debt limit as leverage in the ongoing fiscal debate, citing: ‘financial markets could go haywire and government payments – from Social Security cheques to military salaries – will be delayed ... Interest rates could spike for anyone who borrows money. It would be a self-inflicted wound for our economy. Republican lawmakers will not collect a ransom for raising the debt limit.’”



U.S. President Barack Obama speaking at the White House

Source: Getty Images

- Front Page Headline, Globe and Mail – **“Violent Attacks Escalate as Greek Recession Enters Sixth Year.** In the early morning hours, a gunman bearing a Kalashnikov assault rifle, sprayed bullets into the Athens headquarters of Greece’s ruling centre-right New Democracy party. At least one of the bullets pierced the window of the office sometimes used by Prime Minister Antonis Samaras, who is implementing a harsh austerity policy in exchange for European Union troika bailout loans. Last Friday, homemade bombs exploded outside the homes of five Greek journalists. On Saturday, the government raised taxes again sending the corporate tax rate to 26% from 20% and the top personal tax rate to 42% from 40%. The higher taxes are designed to raise an additional 2.3 billion euros (\$3.07 billion U.S.) a year, although tax evasion is still rife in Greece and the projected revenue increases may prove insufficient as the recession deepens.”
- Front Page Headline, Wall Street Journal – **“Fed to Continue Quantitative Easing: Bernanke.** In a speech at the University of Michigan’s Gerald R. Ford School of Public Policy, Federal Reserve Board Chairman Ben Bernanke stated: “While some positives are emerging in the (U.S.) economy such as in energy and housing, I want to be clear that although we’ve made some progress, there is still quite a way to go. We would like to see a stronger labor market because there are still too many people whose skills and talents are being wasted. Our (quantitative easing ) programs have helped lower long-term interest rates to support (economic) growth, as evident from incredibly low mortgage rates ... We have found this to be an effective tool and the Fed will continue to analyze how effective the programs are in the future, if the economic outlook changes.”
- Front Page Headline, Washington Post – **“Opposing Lines Harden in Gun Control Debate.** Opposing opinions in the debate over America’s gun laws staked out starkly different positions yesterday, with the president of the nation’s largest gun rights group declaring confidence that a ban on assault weapons would not win passage from lawmakers; while advocates of tightening restrictions on guns stated that such measures can be approved. In an interview on CNN’s ‘State of the Union’, National Rifle Association (NRA) President David Keene professed: ‘I would say that the likelihood is lawmakers are not going to pass an assault weapons ban through this Congress.’ Indeed, the staunchest of gun rights advocates, led by the NRA, have shown no willingness to endorse tightened restrictions on guns. Mr. Keene’s comments were delivered two days before a self-imposed deadline for an Obama administration task force, led by Vice President Joe Biden, will offer concrete policy recommendations on curbing gun violence. President Obama has already stated he supports renewing an expired ban on assault rifles and high-capacity magazines, while gun control advocates on Capitol Hill have promised to lead a charge to pass such a measure. Senator Dianne Feinstein (D., Cal.) will soon introduce legislation for such a ban in the U.S. Senate. After Vice President Biden’s group met with the NRA last week, the gun rights group stated it was ‘disappointed with how little the meeting had to do with keeping our children safe and how much it had to do with an agenda to attack the Second Article of the Bill of Rights – A well regulated Militia, being necessary to the security of a free state, the right of the people to keep and bear Arms, shall not be infringed.’”



NRA President David Keene

Source: Getty Images

Tuesday, January 15th

- The Commerce Department reports U.S. retail sales rose by a seasonally adjusted 0.5% in December, following slightly higher revisions for November and October
- The Labor Department reports the U.S. producer price index (PPI) declined by a seasonally adjusted 0.2% in December, led by lower food prices
- The New York Federal Reserve Bank reports manufacturing activity in the greater New York area contracted for the sixth consecutive month as the Empire State Index declined to a reading of minus 7.8 in January, following a revised level of minus 7.3 in December, previously reported as minus 8.1
- In a letter to Congressional leaders, outgoing U.S. Treasury Secretary Tim Geithner issued an updated alert that “the U.S. statutory debt limit could be reached between mid-February and early March. A more specific time frame is difficult to determine due to the uncertainty surrounding the U.S. tax filing system.”
- Front Page Headline, Financial Times – **“Japan’s Economy Minister Warns of Impact of Weaker Yen.** In a rare rhetorical departure from years of attempts by Tokyo to talk the yen down in value, Japan’s Economy Minister Akira Amari warns: ‘If the yen becomes too weak, the cost of imports will rise and would have a negative impact upon people’s lives ... Before our government came to power, the level of the yen was clearly out of line with Japan’s national condition. Now, the market is automatically correcting to a more proper level. I hope it stabilizes at a level that is best for the public good.’”



Japan’s Economy Minister Amari Source: Associated Foreign Press

- Front Page Headline, Daily Telegraph U.K. – **“Greek Opposition Leader Warns Bailouts Are a Bottomless Pit.** At a press conference, following a four-day tour of Germany – during which time he met Finance Minister Wolfgang Schaeuble – the Greek leader of the socialist opposition party Syriza, Alexis Tsipras remarked: ‘The economic reforms demanded of Greece in return for international aid have failed. Not only is the austerity an inhuman program, but it has also led to a cul-de-sac. This program has been revised twice and failed twice. Inevitably, it will be revised a third time and it will fail again ... By propping up Greece, German taxpayers are pouring money into a bottomless pit. I really want the German people to know that the Greek debts are not sustainable.’”



Alexis Tsipras, leader of the Greek socialist opposition party Syriza  
Source: Daily Telegraph U.K.

- Front Page Headline, Globe and Mail – **“Fitch Warns It May Downgrade U.S. Credit Rating.** Fitch Ratings warns it may downgrade America’s sovereign debt credit rating from ‘AAA’ if there is a delay by Congress to raise the country’s statutory debt limit from the current level of \$16.4 trillion (U.S.). There are fears that the fiscal debate will descend into the political brinkmanship that marked the last effort to raise the debt limit in the summer of 2011, when Standard and Poor’s stripped the U.S. of its ‘AAA’ rating for the first time in the country’s history. David Riley, managing director of Fitch Ratings’ global sovereigns division warned: ‘The pressure on the U.S. rating, if anything is increasing. We thought the 2011 crisis was a one-off event ... if we have a repeat, we will place the U.S. rating under review.’”
- The Statistics Office reports Germany’s gross domestic product contracted by 0.5% in the 4th. quarter of 2012 – bringing overall GDP growth for the year to 0.7% – a sharp slowdown from the 3.0% growth rate registered in 2011

- The Office for National Statistics reports U.K. consumer prices rose by 2.7% in December on a year-over-year basis – matching November and October – citing higher costs for housing and utilities
- The Canadian Real Estate Association reports the nation's existing home sales declined by 0.5% in December – the 3rd. consecutive monthly drop – and by 17.4% on a year-over-year basis, the largest annual fall since tighter mortgage rules took effect last July

### Wednesday, January 16th

- Front Page Headline, MarketWatch News – **“President Obama Seeks Major Overhaul of U.S. Gun Laws.** At a White House press conference, U.S. President Barack Obama unveils the most ambitious gun control agenda in decades, announcing a \$500 million (U.S.) package of legislative proposals and executive actions aimed at curbing firearms violence, from mass shootings to street crime. The President stated: ‘Since the Newtown elementary school shooting in December, 900 people in the country have been killed by gunfire. The nation is beset by an epidemic of violence and every day we wait, that number will keep growing. I call on our citizens to persuade Congress to support my plan. If Americans of every background stand up and say enough ... then change will come.’ Within his agenda, President Obama proposed a ban on large ammunition magazines and a requirement for universal background checks. At present, 40% of U.S. gun sales occur without background checks.”
- In its latest Beige Book survey, the U.S. Federal Reserve reports: “Economic activity has expanded since the previous Beige Book report with all 12 districts characterizing the pace of (economic) growth as either modest or moderate. While the New York and Philadelphia districts rebounded from the immediate impact of Hurricane Sandy; Boston, Richmond and Atlanta reported that (economic) growth increased slightly in their districts. However, labor market conditions remained mostly unchanged in all districts.”
- The Federal Reserve reports U.S. industrial production – which includes utilities and mining – rose by 0.8% in December, following a gain of 1.3% in November. Separately, the Labor Department reports the U.S. consumer price index was unchanged in December.
- December – the fastest pace since 2008 – while building permits increased slightly by 0.3% to an annual rate of 903,000
- The Labor Department reports U.S. initial claims for state unemployment benefits fell by 37,000 to 335,000 in the week ended January 12th. while continuing claims increased by 87,000 to 3.21 million in the week ended January 5th. Those people who have exhausted their traditional benefits but are now receiving emergency or extended benefits from state or federal programs rose by 68,000 to 2.06 million in the week ended December 29th.
- The Federal Reserve Bank of Philadelphia reports its general manufacturing index declined to a reading of minus 5.8 in January from a level of minus 4.6 in December. The index covers eastern Pennsylvania, Delaware and southern New Jersey.
- Front Page Headline, Daily Telegraph U.K. – **“Deeper Decline in Euro Zone House Prices Foreseen: S&P.** Standard & Poor's warns: ‘Europe's housing slump is engulfing large parts of the euro zone core as the recession worsens, with prices to continue to keep sliding for another two years. S&P's European Economist Jean-Michael Six elaborated: ‘Downturns in the Dutch and French housing markets appear to be accelerating. We forecast nominal price declines of nearly 5% and 6% respectively this year, as rising unemployment, decelerating wages and the prospect of austerity measures frighten off buyers.’ The French housing market has been a bastion of stability through most of the global financial crisis; however prices began to slide last year as President Francois Hollande embarked on a draconian fiscal initiative to meet European Union deficit targets, mostly by raising taxes. Home sales collapsed by 24% in September on a year-over-year basis, the usual precursor of price capitulation by sellers.”
- Front Page Headline, Daily Telegraph U.K. – **“A New Gold Standard Is Being Born.**

### Thursday, January 17th

- The Commerce Department reports U.S. housing starts rose by 12.1% to an annual pace of 954,000 units in



Gold bars neatly stacked in an unnamed bank's vault

Source: Daily Telegraph U.K.

The world is moving step by step towards a de facto Gold Standard, without any meetings of any G20 leaders to announce the idea or bless the project ... Neither the euro, nor the U.S. dollar can inspire full confidence, although for different reasons. The European Monetary Union (EMU) is a dysfunctional construct, covering two incompatible economies and prone to lurching from crisis to crisis without a unified treasury to support it. The U.S. dollar stands upon a pyramid of debt. This debt will likely be inflated away over time, for better or for worse. The only disagreement is over the speed. Of course, the central bank gold buyers are the rising powers of Asia and the commodity bloc, now holders of two-thirds of the world's \$11 trillion (U.S.) foreign exchange reserves and all its incremental reserves. It is well known that China is buying gold on price dips, seeking to raise the gold share of its reserves well above 2%, while Russia has openly targeted a 10% share. Variants of this are occurring from the Pacific region to the Gulf of Mexico and Latin America. Moreover, the German Bundesbank has chosen to repatriate part of its physical gold from storage in the vaults of New York and Paris. It's responding to popular pressure and prodding from lawmakers in the Bundestag.

## Friday, January 18th

- Front Page Headline, Globe and Mail – **“Republicans Mull Short Term Extension of U.S. Debt Ceiling.** The Republican-controlled U.S. House of Representatives will vote on January 23rd. on a motion to raise the country's statutory debt limit (currently \$16.4 trillion U.S.) , permitting the federal government to borrow more money to meet its obligations for another three months. While full details are not yet determined, the vote is aimed at forcing the Democratic-controlled Senate to join the House in debating the U.S. budget. It would attempt to do so by conditioning the remuneration for members of Congress on passing budget measures through the House and Senate. House Speaker John Boehner warned: “We are going to pursue strategies which will obligate the Senate to finally join the House in confronting the government's spending problem. The principle is simple: no budget, no pay.”



John Boehner enters a strategy session with GOP members.

Source: AP

- Front Page Headline, Wall Street Journal – **“Greece Requires More Assistance from Euro Partners: IMF.** In its latest review of Greece's bailout loan program, the International Monetary Fund warned: ‘Since recent debt relief measures haven't fully restored Greece's debt sustainability, not only is some cutting of debt principal necessary, but also, a further reduction of coupon rates on outstanding (bailout) loans is needed. If downside risks to the Greek bailout program materialize, additional debt relief would require about 3% of Greece's gross domestic product (GDP) per year – about 6 billion euros or \$8 billion (U.S.) – in fiscal transfers between 2013 and 2020. This could include

coupon rates close to zero on bilateral government loans to Greece and loans through the European Financial Stability Facility (EFSF). Alternatively, Greece would require a debt principal reduction of about 25% on EFSF loans, government loans and the European Central Bank's government bond holdings." [See also, Economic Winter, Longwave Analytics Economic Outlook for 2013: Europe.](#)

- Front Page Headline, Wall Street Journal – **“Former New Orleans Mayor Indicted for Corruption.** A federal New Orleans grand jury has indicted the City's former Mayor Ray Nagin on 21 corruption-related charges; including bribery, conspiracy, wire fraud, money laundering and filing false tax returns. The indictment alleges Mr. Nagin – who rose to national prominence during Hurricane Katrina in August 2005 – accepted cash and gifts from businessmen in exchange for awarding contracts and of using his influence to help their companies. According to the indictment, 'Mr. Nagin established a bribery and kickback scheme to sell the power of his public office. He accepted a range of bribes, including tens of thousands of dollars of cash payoffs, granite for his family's granite business, private jet travel across the country, as well as limousine rides.’”



Former New Orleans Mayor Ray Nagin

Source: Reuters

**CLOSING LEVELS FOR FRIDAY, January 18th**
**WEEKLY CHANGE**

<b>Dow Jones Industrial Average</b>	13,649.70	+ 161.37 points
<b>Spot Gold Bullion (February)</b>	\$1,687.00 (U.S.)	+ \$26.40 per oz.
<b>S&amp;P / TSX Composite</b>	12,725.69	+ 123.51 points
<b>10 - Year U.S. Treasury Yield</b>	1.84%	– 3 basis points
<b>Canadian Dollar</b>	100.83 (U.S.)	– 0.75 cent
<b>U.S. Dollar Index Future (Spot Price)</b>	79.97 cents	+ 0.424 cent
<b>WTI Crude Oil (February)</b>	\$96.04 (U.S.)	+ \$2.48 per barrel

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