Monday January 7, 2013

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, January 7th

Front Page Headline, MarketWatch News – **"Bank of America Settles Lawsuit with Fannie Mae for $10.35 Billion (U.S.).**

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The Bank of America announces it has reached agreements with the Federal National Mortgage Association to settle all repurchase and certain other claims surrounding almost all of the mortgage loans originated by its subsidiaries Countrywide Financial Corp. and Bank of America National Association between 2000 and 2008. Bank of America will pay Fannie Mae $3.6 billion (U.S.) in cash plus $6.75 billion (U.S.) to repurchase "certain residential mortgage loans which Bank of America has valued at less than the purchase price." **Once again the ongoing legacy of outsized ego and ignorance of former Bank of America CEO Ken Lewis (now retired) rears its ugly and expensive head. In total, Mr. Lewis' legacy has now cost the Bank of America $43.52 billion (U.S.) in settlements.**

- Front Page Headline, Globe and Mail – **"More Canadian Pension Plans Placed on Watch List.** Canada's Office of the Superintendent of Financial Institutions voices its "serious concern" about the viability of a rising number of private pension plans which are struggling to meet obligations, at a time when both the prevailing level of interest rates and returns on investments are at historic lows. OSFI supervises about 1,400 private pension plans covering more than 637,000 employees in federally regulated businesses such as banking, airlines and telecom. The number of plans on OSFI's watch list continued to increase in the latter half of 2012 and as of early December, there were in excess of 125 plans on the list, more than double the 49 on the list as at March 2011. In a 2011 report to Canadian Finance Minister Jim Flaherty, OSFI noted that pension plans with financially weak sponsors and defined-benefit plans with negotiated contributions were particularly vulnerable. The decline in the number of pension plans' estimated solvency ratios, used to measure the ability of a company to meet its long-term debts, flags them as a concern for OSFI. The regulator tests the solvency ratios of all the plans it supervises on a semi-annual basis and has taken actions ranging from restricting the portability of benefits to terminating plans in order to protect plan members."

- Front Page Headline, Daily Telegraph U.K. – **"Workers in London's Financial District at 8 -Year Low.** Analysis of the Financial Services Authority (FSA) data base by corporate finance boutique IMAS, reveals the number of 'approved staff' working in the City's financial services industry has declined to about 152,000 from approximately 170,000 in mid-2007. IMAS' tracking of the FSA's register is regarded as one of the most accurate data bases available of actual employment in the City, since it monitors on a month-to-month basis the number of staff employed in the high-end frontline jobs which require approval by the regulator. Olly Laughton-Scott, a founding partner of IMAS, claimed: 'This is the only data base of its kind which reveals the extent of the (employee) layoffs."

- Front Page Headline, Daily Telegraph U.K. – **"Sterling Faces Destructive 'Triple Cocktail' in 2013: HSBC.** In its 'View of 2013', HSBC states: 'The pound's fiscal credibility is under threat as a sovereign (debt credit rating) downgrade looms. Moreover, austerity measures are now being implemented at a time when the Bank of England's Monetary Policy Committee (MPC) appears less activist ...the pound looks set to be a loser, as its frailties emerge from the shadows.' HSBC forecasts: 'The pound will be trading around $1.52 (U.S.) by the end of 2013, down 5% from $1.60 (U.S.) at present. While a falling currency will help boost exports, it increases the cost of imports and makes holidays abroad more expensive."

- Front Page Headline, Wall Street Journal – **"Battle Lines Drawn for Budget Talks.** In a weekend interview on ABC, Senate Minority Leader Mitch McConnell (R., Ky.) stated: 'In the forthcoming budget and debt negotiations, Republicans won't accept (any) further tax increases,' putting GOP lawmakers on a collision course with Democrats over the raising of the government's statutory debt limit from the current level of $16.4 trillion (U.S.) by the end of February. Senator McConnell elaborated: 'The tax issue is finished, completed and behind us. Now, it's time to pivot and turn to the real issue which is our spending addiction.' Meanwhile, in a CNN interview, Senator Dick Durban (D., Ill.) commented: 'There are still deductions, credits and special treatments under the tax code that should be examined very carefully."

Senator Mitch McConnell (right) in a CNN interview. Source: Reuters

Tuesday, January 8th

- The European Commission (EC) reports its index of euro area executive and consumer sentiment rose to a reading of 87 in December following a level of 85.7 in November. Separately, Eurostat reports the euro zone unemployment rate rose to a record 11.8% as 18.8 million people were without jobs in November, an additional 113,000 over October. The overall unemployment rate for 15 to 25 year-olds in the euro zone was 24.4%, up from 21.6% in October. Martin van Vliet, an economist with ING Financial Markets commented: "With more fiscal austerity in the pipeline, the (sovereign) debt crisis still unresolved and unemployment rising … consumers and hence businesses still have plenty to worry about. Moreover, despite the recent minor improvement, euro zone economic sentiment remains in recession territory."

- Front Page Headline, Financial Times – **"Disputes Rage Along U.S. Oil Pipelines.** Resurgent North American oil production is stoking conflict along pipelines in the region as customers jockey over space and operators seek higher fees. The outcome could influence profit margins for U.S. refineries buying oil from boom states such as North Dakota and affect the nearly $20 (U.S.) per barrel gap between the world's two most important benchmarks – Brent and West Texas Intermediate (WTI).This week, the Seaway Pipeline is set to almost treble capacity from Cushing, Oklahoma, the delivery point for WTI oil futures contracts to its Gulf of Mexico destination. This could help drain record stocks at Cushing, which have depressed U.S. oil prices. However, even as flows quicken to 400,000 barrels per day, Seaway's owners are embroiled in a legal dispute over whether it should be able to abandon regulated shipping rates of $2.00 (U.S.) to $3.50 (U.S.) a barrel and charge customers what the market will bear. Today, WTI crude delivered to Cushing is $92.88 (U.S.) per barrel, an $18.80 (U.S.) discount to the Brent benchmark. If the Seaway Pipeline's owners increased transport costs, shippers who have not committed to long-term capacity would need a larger discount to make increased volumes worthwhile. Michael Wittner, an oil research analyst at Societe Generale in New York, noted: 'If the pipeline tariff ends up being higher than what people are assuming, it strongly implies that the discount will be wider."

The crude oil terminal in Cushing, Ok. Source: Financial Times

Wednesday, January 9th

- Front Page Headline, Bloomberg News – **"Blackstone More than Doubles Inventory of Homes.** Blackstone Group, the largest U.S. private real estate owner has accelerated purchases of single family homes by spending more than $2.5 billion (U.S.) on 16,000 homes to manage as rentals; deploying capital from the $13.3 billion (U.S.) fund it raised in 2012. Blackstone's inventory of homes has increased from $1 billion (U.S.) last October, when company chairman Stephen Schwarzman revealed the company was spending $100 million per week for houses."

Workers install roofing material on a house under construction in Rancho Santa Fe, Cal. Source: Bloomberg

- Front Page Headline, Bloomberg News – **“Morgan Stanley to Announce 1,600 Job Layoffs.** An informed source has related to Bloomberg that Morgan Stanley will announce 1,600 job layoffs from it investment banking unit in the coming weeks. The cuts would total about 6% of the New York-based firm’s investment banking employees and support staff. Purportedly, the job reductions will be evenly split between American and foreign employees.”

- The Tempe, Arizona-based Institute for Supply Management (ISM) reports its U.S. manufacturing index rose to a reading of 50.7 in December from a three-year low of 49.5 in November

- Front Page Headline, Globe and Mail – **“President Obama to Nominate Jack Lew for U.S. Treasury Secretary**. In an announcement prior to the end of the week, U.S. President Obama is expected to announce his nomination of White House Chief of Staff Jack Lew for the post of U.S. Secretary of the Treasury, replacing Tim Geithner. Mr. Lew, a budget expert, would bring a wide range of experiences – in both the public and private sectors – to the Treasury Department. Mr. Lew was Director of the Office of Management and Budget during President Obama’s first term; as well as under former President Bill Clinton. Prior to that, Mr. Lew held top positions at Citi Group.”

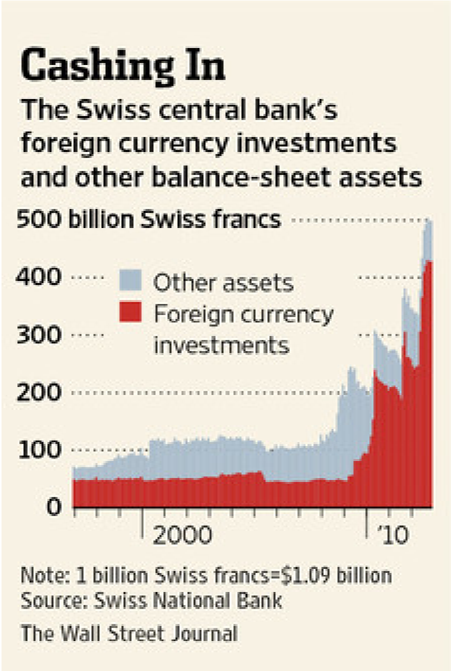
A January 2012 photo shows Jack Yew (left) listening to a White House speech by President Obama Source: Associated Press

- Canada Mortgage and Housing Corp. (CMHC) reports the pace of Canadian housing starts slowed by a modest 1.7% in December to 197,976 units on an annual basis, the fourth consecutive monthly decline. David Madani, an analyst at Capital Economics commented: “Canada’s real estate market is exhibiting the same cracks as the United States before the 2007 crash.”

- Front Page Headline, Wall Street Journal – **“TransCanada Tapped for $5 Billion (CAD) Pipeline Project.** TransCanada Corp. announces it has been chosen by Progress Energy Canada to build, own and operate a $5 billion (CAD) pipeline project which will transport natural gas to a new liquefied natural gas terminal on the coast of British Columbia. Calgary, Alberta-based TransCanada announced it expects to finalize agreements for the Prince Rupert Gas Transmission Project early this year. The proposed pipeline will transport natural gas primarily from the North Montney gas producing region near Fort St. John, B.C. to the LNG export facility, which is aimed at exporting natural gas to Asian markets.”

- Front Page Headline, Times of London – **“U.S. Reaffirms Historic Importance of Britain’s Relationship.** In a London speech, Philip Gordon, Assistant U.S. Secretary of State for Europe and Eurasia warned: ‘Britain risks damaging its relationship with Washington if it abandons the European Union. Since the EU has increasing weight in the world, it would be wise for the U.K. to retain its influence in Brussels.’ While Mr. Gordon reaffirmed the historic importance of Britain’s relationship with Washington, he noted: ‘The EU is seen as an increasingly important partner across the Atlantic on issues such as economic growth, employment and the threat of a nuclear Iran ... From an American perspective, we welcome an outward looking EU with Britain in it.”

- Front Page Headline, Wall Street Journal – **"Swiss National Bank Adopts High Risk Strategy.** In an attempt to protect Switzerland's export-driven economy, the Swiss central bank is printing and selling as many Swiss francs as needed to keep the currency from appreciating against the euro; exchanging an amount approaching the equivalent to the country's total national output. Switzerland's virtue is the root of its problem: broad confidence in the Swiss currency and economy has investors eager to purchase Swiss francs in exchange for euros. Such demand makes Swiss francs more expensive and in turn increases the price of Swiss exports. Over the past three years, The Swiss National Bank has printed francs to buy euros and other currencies in a ballooning portfolio of foreign currency assets fourfold of what it was at the start of 2010. Switzerland's exposure is remarkable both in character and scale: its central bank is buying assets from other countries, bonds, stocks and gold – nearly 500 billion Swiss francs ($541 billion U.S.) – in a total approaching the size of the nation's gross domestic product (GDP)."



Thursday, January 10th

- Front Page Headline, Globe and Mail – **"Greek Unemployment Rate Hits Record.** The statistics service ELSTAT reports Greece's unemployment rate rose to a record 26.8% in October, while unemployment among youth aged 15 to 24 also rose to a record of 56.6%

- The Labor Department reports U.S. initial claims for state unemployment benefits increased by 4,000 to a seasonally adjusted 371,000 in the week ended January 5th. while continuing claims declined by 127,000 to 3.11 million in the week ended December 29th. Those people who have exhausted their traditional benefits, but are now receiving emergency or extended benefits from state or federal programs fell by about 75,500 to 1.99 million in the week ended December 22nd.

- The economy ministry reports China registered a trade surplus of $31.6 billion (U.S.) in December, following a $19.6 billion (U.S.) surplus in November, citing robust demand from southeast Asia, Europe and the United States. Exports rose by 14.1% in December on a year-over-year basis – the fastest pace in seven months – while imports increased by 6% after flat lining in November.

- Ireland's National Treasury Management Agency raises 2.5 billion euros in a syndicated 5-year bond issue with an average yield of 3.316%, which was 3 times oversubscribed as foreign institutions purchased 87% of the offering

- Front Page Headline, Daily Telegraph U.K. – **“Moody’s Downgrades Cyprus’ Credit Rating**. Moody’s Investors Service downgrades Cyprus’ sovereign debt credit rating by three levels to Caa3 from B3, citing the anticipated increase in the government’s debt burden, due to the further increase in government support for Cypriot banks: “Given that the resulting increase in the debt burden is likely to be unsustainable, Moody’s believes there is a significantly increased likelihood that the Cypriot government may eventually default outright, or press for a distressed exchange. Moody’s estimates that the bank recapitalizations will be about 10 billion euros, which equates to more than 50% of GDP. That could take Cyprus’ ratio of debt to gross domestic product to 150% in 2013, which would be one of the highest levels in Moody’s ratings universe. Moody’s also placed Cyprus’ credit rating on a negative outlook, citing liquidity concerns, the bank recapitalization requirements and the delay in the negotiations with the troika of the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF) on a package of (financial) aid to resolve the country’s liquidity crunch.”

Friday, January 11th

- Statistics Canada reports the nation’s merchandise trade deficit widened to $2 billion (CAD) in November from an upwardly revised $600 million (CAD) in October, previously estimated as $200 million (CAD). While exports to the U.S. rose by 3.9% led by autos and energy, exports to the rest of the world declined by 13.4%

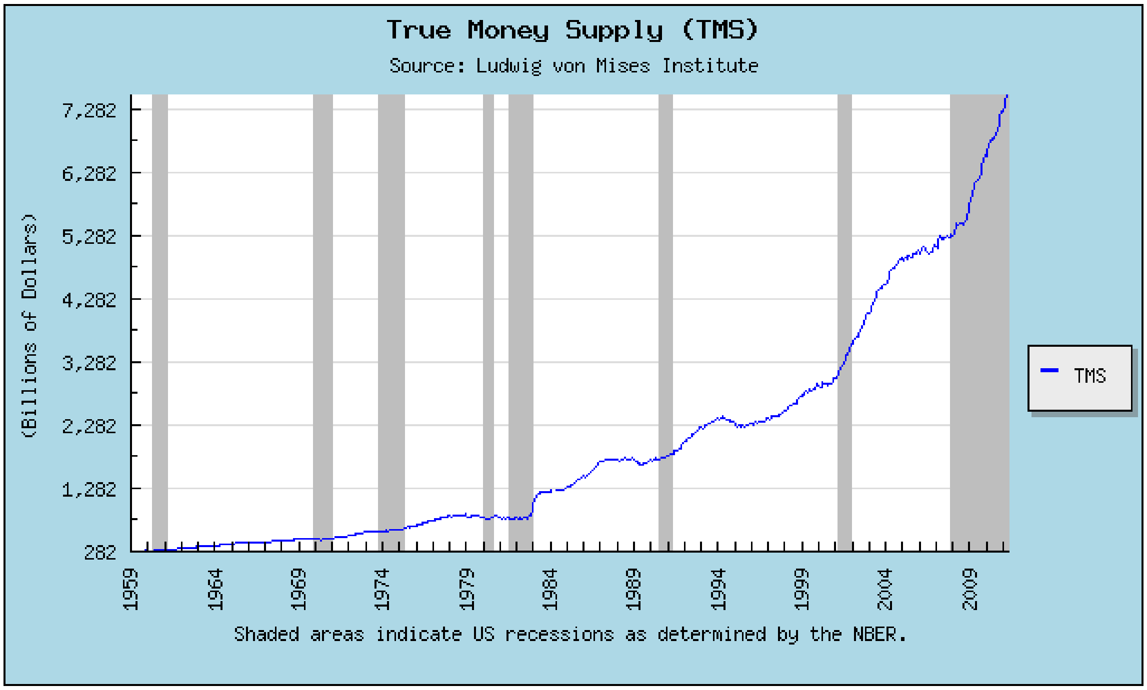
- Front Page Headline, Wall Street Journal – **“Greeks Raid Forests Searching for Wood to Heat Homes.** Authorities report tens of thousands of trees have disappeared from parks and woodlands this winter across Greece, as impoverished residents too broke to pay for electricity or fuel, turn to fireplaces and wood stoves for heat. As the winter temperatures drop, this trend is dealing a serious blow to the environment, as hillsides are denuded of timber and smog from fires clouds the air in Athens and other cities, posing risks to public health. Forestry groups maintain the number of illegal logging cases soared in 2012, while Greece’s environment ministry has lodged more than 3,000 lawsuits and seized in excess of 13,000 tons of illegally cut trees. Stefanos Sapatakis, an environmental health officer at the Hellenic Center for Disease Control and Prevention, noted: ‘The average Greek will throw anything into the fireplace that can be burned, ranging from old furniture with lacquer to old books with ink, in order to get warm.”

The increasingly barren hillsides of Greece Source: Agence France-Presse/Getty Images

- Front Page Headline, Financial Times –**"Hazardous Smog Blankets Beijing.** China's capital is blanketed in a thick, foul-smelling layer of hazardous smog which pushed air quality readings well off the charts and prompted environmentalists to label it the worst air pollution on record in the city. Home to 20 million people, Beijing recorded the volume of harmful particles in the air was 36 times the level recommended as safe by World Health Organization guidelines. State media reported the toxic mixture of fog, coal fumes, car exhaust, construction dust and industrial emissions was likely to persist for days due to atmospheric conditions which had trapped the smog over the city."

Beijing smog labeled as the worst on record Source: Associated Foreign Press

- Front Page Headline, Gold Money – **"The Economics of Gold and Silver in 2013.** The New Year should see some major changes in how gold and silver are regarded in the West, if it becomes obvious that confidence in government-issued fiat money as a medium of exchange might be misplaced. For the moment, this concern is mainly limited to economists of the Austrian School. Whether they are right or wrong only time will tell, however it is worth considering their basic argument ... The role of money in a transaction is to act as the objective element, which is the way people automatically think: hence an item or an asset costs so-many-dollars; if the price changes, it is normally assumed it is the value of the item or the asset that has altered and not the purchasing power of the money. The moment ordinary people become aware instead to the possibility that prices are rising because the value of the money is falling, the currency is doomed. This awakening to currency debasement is a gradual process and to date, the only people who really appreciate the danger faced by fiat currencies are a small group who follow Austrian economics. However, during 2013 more and more people are likely to suspect it. The underlying reason is central banks are issuing money at an alarming rate. They are doing this for a purpose: governments cannot raise enough money without central banks printing it and if the rate of issuance became restricted, interest rates would increase and general debt liquidation would ensue. If we assume that no government or central bank has the strength to face these realities head on, then monetary inflation must continue to accelerate. This is why Austrian economists are worried, as the chart of their favourite measure of money supply, the Austrian 'True Money Supply' (TMS) illustrates. It is noticeable how TMS has accelerated since mid-2008, well above the exponential trend since 1959. So, dollar money has gone hyperbolic and the dollar is not alone in this trend.



The question is how long can this continue before the man in the street realizes that price increases are due to the flood of available money relative to the quantity of goods? The hyperbolic acceleration of TMS suggests that we do not have long until monetary debasement will begin to affect prices in the high street sooner rather than later: the reasons it has not done so yet is that price inflation is under-recorded and consumers are financially strapped. However, it should become increasingly obvious to more and more people during 2013 that money is being debased ... Sound money and government economics are like oil and water. It will be people like you and me, who will seek sound money when we discard government money as not being fit for its purpose. We will exchange paper money for essential goods; and increasing numbers of us can be expected to move our cash reserves and liquid capital into precious metals in the growing knowledge that it is the only way to preserve our purchasing power.”

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CLOSING LEVELS FOR FRIDAY, January 11th		WEEKLY CHANGE
Dow Jones Industrial Average	13,488.33	+ 53.11 points
Spot Gold Bullion (February)	$1,660.60 (U.S.)	+ $11.70 per oz.
S&P / TSX Composite	12,602.18	+ 61.37 points
10 - Year U.S. Treasury Yield	1.87%	– 3 basis points
Canadian Dollar	101.58 (U.S.)	+ 0.27 cent
U.S. Dollar Index Future (Spot Price)	79.546 cents	– 0.955 cent
WTI Crude Oil (February)	$93.56 (U.S.)	+ $0.47 per barrel

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