

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



Monday, November 18th

The National Association of Homebuilders / Wells Fargo report their builder confidence index remained unchanged at a reading of 54 in November from a downwardly revised October level, a four month low. In a statement, David Crowe – chief economist at the

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builders association – noted: “Government policy and economic uncertainty are undermining consumer confidence. However, the fact that the builder confidence index remains above a reading of 50 is an encouraging sign, considering the unresolved federal debt and budget issues cause builders and consumers to stay on the sidelines.”

- Front Page Headline, Globe and Mail – “MF Global Ordered to Pay \$1.2 Billion (U.S.) to Customers. In a press release, the Commodity Futures Trading Commission (CFTC) announced that U.S. District Judge Victor Marrero of the Southern District Court of New York has ordered bankrupt MF Global Holdings Inc. to return \$1.2 billion (U.S.) to harmed customers, plus pay a \$100 million (U.S.) penalty; as part of a civil settlement with U.S. derivatives regulators. The CFTC’s civil litigation against MF Global’s former Chief Executive Officer Jon Corzine and former Assistant Treasurer Edith O’Brien remains; pending a court decision.
- Front Page Headline, New York Times – “Re-Election Worries Preventing Politicians from Striking Fiscal Grand Bargain. In a New York Times op-ed, reporter Jackie Calmes writes: ‘The long-sought bipartisan grand bargain on the nation’s fiscal future is not only unlikely to happen this year, but also, unlikely for the rest of President Obama’s term ... In the U.S. Congress, Republicans oppose further tax increases on the rich, as Democrats demand, so Democrats will not support major changes to Medicare and Social Security, as Republicans insist. The reality

is that neither side wants to take the actions it demands of the other, in order to achieve a breakthrough. Many Republicans are no more interested in voting to reduce Medicare and Social Security benefits than are Democrats, lest they threaten their party’s big advantage among the older voters who dominate the electorate in midterm contests like those in 2014. Likewise, Democrats are no more eager than Republicans – with control of both houses of Congress up for grabs – to vote for the large revenue increases that a grand bargain would entail. Neither party wants to limit popular but costly income tax deductions, as President Obama and past bipartisan panels – like his Simpson-Bowles fiscal commission – have proposed. That is especially true for Democrats from states like California and New York, where affluent voters value tax deductions for mortgages on first and second residences, charitable giving; as well as state and local taxes.’ Jared Bernstein, a senior fellow at the liberal Center on Budget and Policy Priorities commented: ‘The only person who seems to have been consistently interested in a grand bargain is President Obama and frankly, I’m not even sure about him.’ President Obama has not pressed the negotiators from the Democrat controlled Senate and the Republican led House to aim higher. It would not matter if he did.”

TUESDAY, NOVEMBER 19TH

- In its semi-annual global economic report, the Paris-based Organization for Economic Cooperation and Development (OECD) forecasts the world economy will probably grow by 2.7% this year and by 3.6% in 2014, instead of the 3.1% and 4% it predicted last May, citing a slowing of emerging market economies, including India and Brazil. In an interview, OECD Chief Economist Pier Carlo Padoan commented: “Most of the emerging (market) economies possess underlying fragilities, which means they cannot continue to grow as in the past. Formerly, they were an important support engine for global (economic) growth during difficult times. Now, the reverse is true since advanced economies have not yet returned to good times. The U.S. Federal Reserve is in a very tricky position. Many people were surprised by the huge (market) reaction when discussion about tapering (the Fed’s QE monetary policy) was introduced. The Fed must re-assess market reactions and this makes deciding when to taper more difficult. However, it must happen eventually.”



OECD Chief Economist Pier Carlo Padoan.

Source: Bloomberg News

- The Mannheim-based ZEW Center for European Economic Research reports its index of investor and analyst expectations – which aims to predict economic developments six months in advance – rose to a reading of 54.6 in November; following a level of 52.8 in October and it’s the strongest reading since October 2009. Stefan Schneider, chief economist at Deutsche Bank AG in Frankfurt observed: “Germany’s economy is strong and solid especially considering that domestic demand is the main reason for growth.”
- Front Page Headline, Bloomberg News – “Food Stamp Costs Ballooned by States Spending \$1 for Heat per Resident. Congressional critics seeking to reduce the nation’s food stamp bill – which has doubled in the past five years – are pointing to what appears to be a loophole in the law. If a state gives a resident as little as \$1 a year in heating assistance, it allows that person’s household to automatically qualify for an average of \$1,080 (U.S.) worth of additional foods stamps annually from the federal government. That’s what 14 states, including New York and California; as well as the District of Columbia have done. Mary Cheh, a Democrat and a member of the District of Columbia’s city council, had decided: ‘If there are programs available for people, we should use them.’ Due to her urging, the council unanimously approved the ‘heat and eat’ arrangement in 2009, agreeing to make token heating-aid payments so citizens could obtain more food. Members of a Congressional bipartisan Conference Committee are scrutinizing food stamp eligibility rules, as they seek to reconcile different versions of a bill that would set agricultural policy for the next five years. Both the House and the Senate would cut food stamp funding, mostly by altering the eligibility rules for benefits. The Senate would cut roughly \$4 billion (U.S.) over four years, largely by toughening the ‘heat and eat’ requirement. The House would trim another \$35 billion (U.S.) by further tightening eligibility rules and adding drug testing and work requirements.”
- Front Page Headline, Wall Street Journal – “Fed Chairman Warns of Prolonged Low Interest Rates. In remarks prepared for delivery at the National Economists Club Annual Dinner in Washington, Mr. Bernanke stated: ‘Even after the unemployment rate drops below 6.5%, the Federal Reserve can be patient in seeking assurance that the labor market is sufficiently strong, before considering any increase in its target for the federal funds rate ... The target for the federal funds rate is likely to remain near zero for a considerable time (frame) after the asset purchases end; perhaps well after the unemployment threshold is crossed and at least until the preponderance of the (economic) data supports the beginning of the removal (monetary) policy accommodation.’”
- Front Page Headline, Financial Times – “JP Morgan Agrees to \$13 Billion (U.S.) Settlement over Mortgage-Backed Securities. JP Morgan Chase has agreed to a landmark settlement with the U.S. Department of Justice and state authorities for fraudulently marketing mortgage-backed securities to institutional clients. U.S. Attorney General Eric Holder commented: ‘The size and scope of this resolution should send a clear signal that the Justice Department’s financial fraud investigations are far from over. No firm, no matter how profitable, is above the law and the passage of time is no shield from accountability.’”

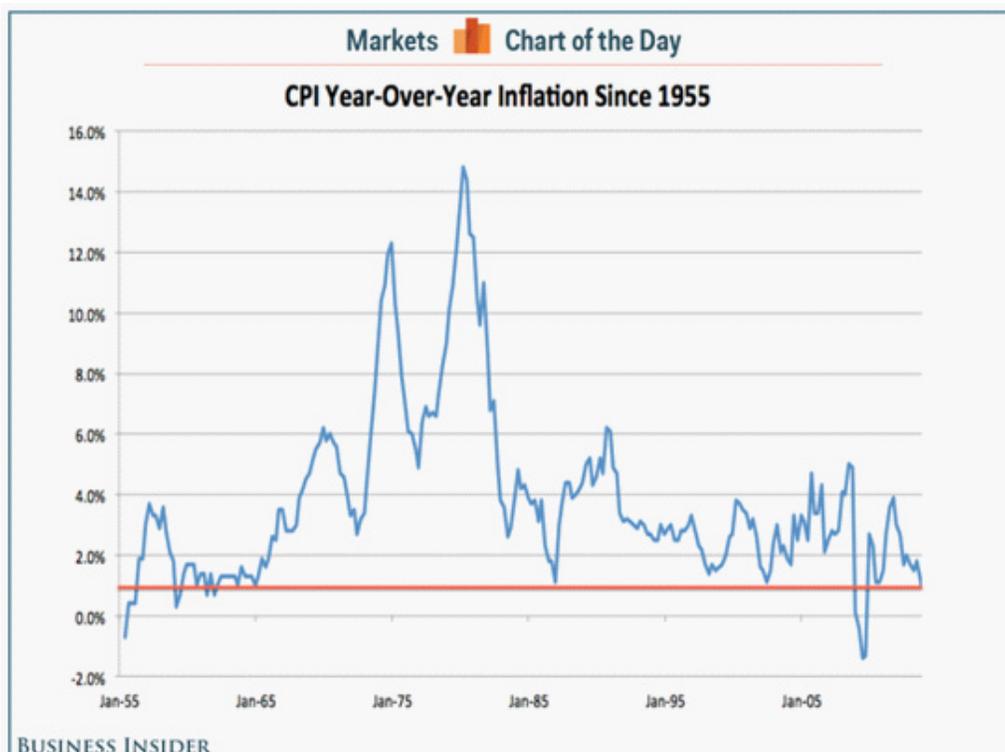
- Front Page Headline, Wall Street Journal – “Lawmakers Should Consider Statutory Debt Limit Reform: Jack Lew. Speaking at the WSJ’s CEO Council in Washington, U.S. Treasury Secretary Jack Lew proposed: ‘Policy makers should consider a reform of the government’s long standing borrowing limit, which could help to prevent future fiscal clashes that restrict economic growth. The full faith and credit of the United States, whether it’s bonds or contracts or benefits, must be honoured. The whole idea of (statutory) debt limit reform is probably something we should think about.’ Following a protracted battle in Congress, lawmakers agreed to suspend raising the statutory debt limit until February 7, 2014. Mr. Lew added: ‘Congress should agree to raise the debt ceiling well in advance of that date and avoid any sense of a default crisis at all. The challenge to achieving a grand bargain is just too difficult for both sides (at this time.)’”



U.S. Department of the Treasury Secretary Jack Lew.
Source: WSJ

WEDNESDAY, NOVEMBER 20TH

- The National Association of Realtors reports U.S. existing home sales declined by 3.2% to a seasonally adjusted annual pace of 5.12 million in October, citing rising mortgage rates and higher house prices affected affordability.
- The Commerce Department reports U.S. retail sales rose by 0.4% in October – the biggest gain in three months – following a decline of 1% in September.
- The Labor Department reports the U.S. consumer price index (CPI) declined by 0.1% in October – the first decline in six months – citing lower prices for energy, clothing and new automobiles. Russell Price, an economist at Ameriprise Financial in Detroit noted: “Inflation is a distant concern at this time. It gives the Fed room for its continuing quantitative easing (policy) efforts.”



THURSDAY, NOVEMBER 21ST

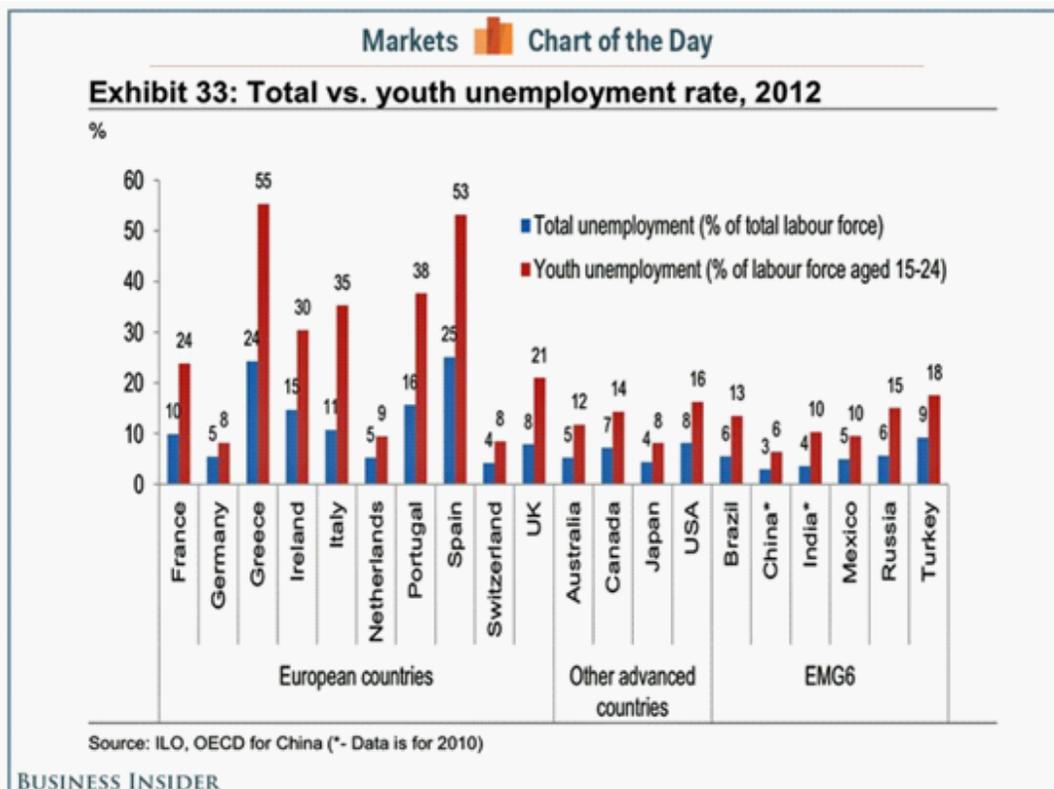
- The Labor Department reports the U.S. producer price index (PPI) declined by 0.2% in October, following a 0.1% drop in September, citing weaker demand for energy products and lower demand for goods from foreign markets such as Europe.
- Separately, the Labor Department reported U.S. initial claims for state unemployment benefits declined by 21,000 to 323,000 in the week ended November 16th. from a revised 344,000 in the week ended November 9th.
- The Federal Reserve Bank of Philadelphia reports its manufacturing activity index declined to a reading of 6.5 in November from a level of 19.8 in October. Any reading above zero indicates manufacturing expansion in the region, which includes factories in eastern Pennsylvania, southern New Jersey and Delaware. Moreover, the survey revealed a waning in optimism about the future, with the six-month business conditions index falling to a reading of 45.8 in November from a level of 60.8 in October.
- By a vote of 14 to 8, the Senate Banking Committee forwarded Janet Yellen's nomination to the full U.S. Senate for a confirmation vote to become the next Chairperson of the U.S. Federal Reserve. Ms. Yellen's confirmation to a four-year term – with the

distinction of becoming the first woman to lead the Fed – is virtually assured after the Senate changed its rules a few hours later to require only 51 votes to confirm most presidential nominees; meaning Ms. Yellen does not need Republican support. The full Senate is expected to vote post the U.S. Thanksgiving holiday. Ms. Yellen, 67, has been the Fed's Vice Chairwoman since 2010 and has worked closely with the current Fed Chairman Ben Bernanke, to expand the Fed's monetary policy efforts to revive the U.S. economy and reduce unemployment.



U.S. Federal Reserve Vice Chairwoman Janet Yellen.
Source: Associated Press

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- Front Page Headline, Business Insider – “Youth Unemployment Rates Are Terrible Everywhere. In a recent note to clients, Credit Suisse economist Amlan Roy observed: ‘We highlight that youth unemployment rates are in general much higher than total unemployment rates, despite the increases in the numbers of skilled and educated youth with increased years of schooling. Youth unemployment rates are more than double employment rates in most countries and more than triple the unemployment rate in Italy.’”
- Statistics Canada reports the nation’s retail sales rose by 1% to \$40.73 billion (CAD) in September, citing higher sales at motor vehicle and parts dealers
- The Munich-based Ifo Institute reports its German business confidence index – based upon a survey of 7,000 executives – rose to a reading of 109.3 in November, following a level of 107.4 in October; the highest reading since April 2012. Christian Schulz, an economist at Berenberg in London, commented: “Germany’s economic expansion is broadly based, with (business) expectations rising across all sectors of the economy. Generally, German households should (also) be in a fairly comfortable situation.”

CLOSING LEVELS FOR FRIDAY, NOVEMBER 22ND.

WEEKLY CHANGE

Dow Jones Industrial Average	16,064.77	+ 103.07 points
Spot Gold Bullion	\$1,244.10 (U.S.)	– \$43.30 per oz.
S&P / TSX Composite	13,478.34	– 4.23 points
10 – Year U.S. Treasury Yield	2.74%	+ 4 basis points
Canadian Dollar	95.02 cents (U.S.)	– 0.70 cent
U.S. Dollar Index Future	80.647	– 0.163 cent
WTI Crude Oil Futures	\$94.72 (U.S.)	+ \$0.88 per barrel

Ian A. Gordon, The Long Wave Analyst www.longwavegroup.com

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