

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



Monday, October 14th

Front Page Headline, Bloomberg News – “Senate Leaders Seek End to U.S. Government Shutdown but Debt Accord Elusive. While optimism was expressed by Democratic and Republican Senators on Sunday television talk shows, there was little

**MONDAY, OCTOBER 14TH**

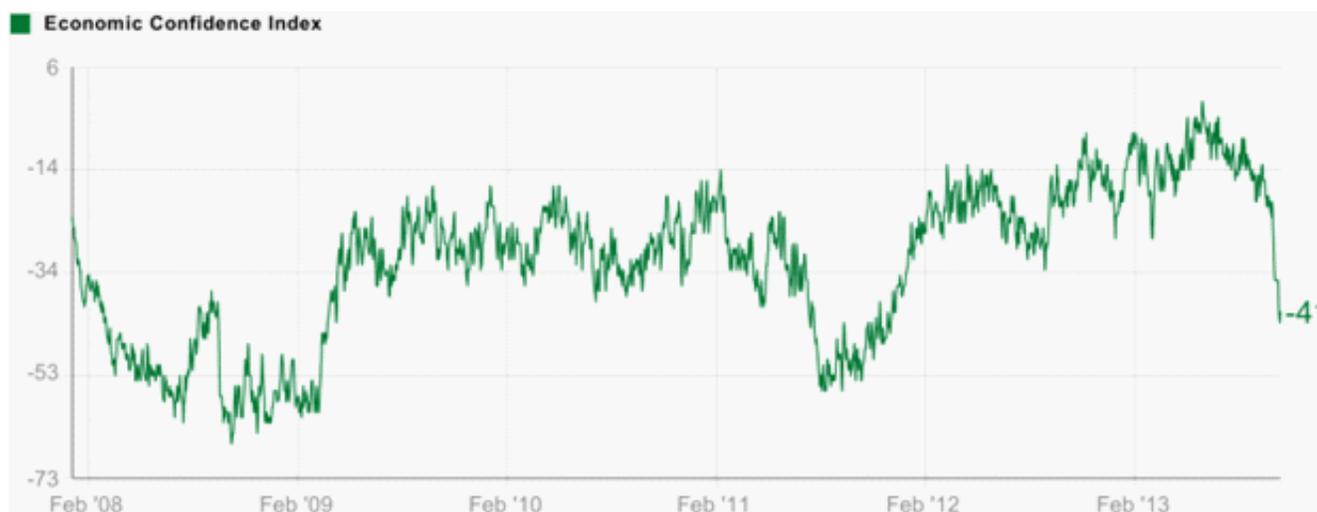
Thanksgiving Day Holiday in Canada /  
Columbus Day in the U.S.

evidence to support their words as the federal government’s partial shutdown entered its third week and only three days remain before the U.S. Department of the Treasury’s borrowing authority expires. In an interview with NBC’s Meet The Press program yesterday, International Monetary Fund (IMF) Managing Director Christine Lagarde warned: ‘The Congressional deadlock over increasing the U.S (statutory) debt limit from \$16.7 trillion (U.S.) is threatening the American and world economies. If there is that degree of disruption, that lack of certainty, that lack of trust in the U.S. signature; it would mean massive disruption the world over and we would be at risk of tipping, yet again, into recession.’”



Dem. Sen. Harry Reid (left) and Rep. Sen. Mitch McConnell.  
Source: Getty Images

- Front Page Headline, Washington Post – “U.S. Senate Leaders Appear Within Striking Distance of a Continuing Resolution Agreement. In a long-awaited breakthrough, Senate leaders closed in on an agreement Monday afternoon to raise the federal statutory debt limit and end a two week-old government shutdown as Washington scrambled to avoid the nation’s first default on its debt. With the leaders of both parties optimistic that they will soon come together to end the political crisis which has paralyzed Washington, details of the possible agreement began to emerge. According to people in the Senate familiar with the talks, it would raise the statutory debt limit until February 15th. and fund federal agencies until January 15th. with the two sides holding budget talks before a new round of sequestration budget cuts take effect in January.”
- Front Page Headline, Business Insider – “Gallup Daily U.S. Economic Confidence Index Reaches Two Year Low. Gallup reports the latest reading of its index registered minus 41, down 40 points from a peak of minus one reached in late May. Half of the decline from May’s peak to today’s level has occurred in just the past two weeks, since the U.S. government shutdown commenced on October 1st. At minus 41, the index is at its lowest level since December 12, 2011. In other words, two weeks of government shutdown has helped erase two years of gains in consumer confidence. Only 28% of those polled by Gallup responded that the domestic economic outlook is improving, whereas 67% believe it’s worsening.”



Source: Gallup

## TUESDAY, OCTOBER 15TH

- The Federal Reserve Bank of New York reports its Empire State manufacturing index declined to a reading of 1.5 in October from a level of 6.3 in September, citing lower factory sales and hiring plans. Ryan Sweet, an economist at Moody's Analytics in West Chester, Pennsylvania commented: "The improvement in the new orders gauge reflects a lot of manufacturers' uncertainty can be blamed on (Congressional) fiscal brinkmanship, rather than a deterioration in fundamentals." The Empire State index includes manufacturing activity in New York, northern New Jersey and southern Connecticut.
- Front Page Headline, Wall Street Journal – "Portugal Unveils Toughest Ever Austerity Budget. Portugal's government unveils the harshest package of spending cuts to date under its 2 1/2 year-old bailout package, calling for reductions in pensions and public employees' wages in 2014, in order to reach the budget deficit target agreed upon with its international lenders. While next year's budget is expected to be approved in parliament – where the center right government has a majority – the \$4.3 billion (U.S.) in planned cutbacks could face resistance in the Constitutional Court, which has previously struck down several austerity measures. The budget plan could also ignite renewed popular discontent in a country with 17% unemployment and one of the lowest minimum wages in Europe. Portugal's largest union confederation (CGTP) has already called for a mass street protest this Saturday. Pedro Marques, vice president of the main opposition Socialist Party observed: "The government insists on this prescription and dosage but doesn't mention any alternatives. Budget consolidation amid a recession doesn't work."

- Front Page Headline, Bloomberg News – "Fitch Places U.S. 'AAA' Sovereign Debt Credit Rating Outlook on Negative Watch. Citing that it expects the U.S. statutory debt limit – currently \$16.7 trillion (U.S.) – to be raised, Fitch Ratings noted: 'The political brinkmanship and reduced financing ability could cast doubt over the full faith and credit of America and increase the risk of a U.S. Treasury default.'"
- The Canadian Real Estate Association (CREA) reports the nation's existing home sales rose by 18.2% in September on a year-over-year basis, citing the prospect of increasing mortgage rates is fuelling the housing market.

## WEDNESDAY, OCTOBER 16TH

- The Washington-based National Association of Homebuilders / Wells Fargo report their index of U.S. homebuilder sentiment declined to a reading of 55 in October from a downwardly revised level of 57 in September. David Crowe, an economist at the homebuilders association, observed: "A spike in mortgage rates along with the paralysis in Washington which led to the government shutdown and uncertainty regarding the nation's statutory debt limit, have caused builders and consumers to postpone spending decisions."
- Eurostat reports the euro zone's inflation rate declined to 1.1% on a year-over-year basis in September from 1.3% in August, its lowest level in 3 1/2 years

- The Office for National Statistics reports U.K. claims for unemployment benefits declined by 41,700 in September, the most since June 1997. The unemployment rate, as measured by International Labour Organization standards, remained unchanged at 7.7% in the three month period to the end of August. James Knightly, an economist at ING Bank NV in London, commented: "With business surveys indicating robust economic activity ... we remain optimistic on the U.K.'s prospects. The U.K. unemployment rate could decline below the 7% threshold in late 2014 or early 2015."
- Statistics Canada reports the nation's manufacturing sales declined by 0.2% to \$49.5 billion (CAD) in August – following three months of gains – citing lower sales in the food and automobile industries. For the most part, however, those declines were offset by gains in the aerospace and primary metal industries. In a memo to clients, RBC Economics Research analyst Nathan Janzen noted: "Manufacturing sales remain subdued with the dip in the volume of August sales leaving the measure 2.1% below its level of a year ago."
- The Chicago-based Commodity Futures Trading Commission (CFTC) announces JP Morgan Chase has agreed to pay a \$100 million (U.S.) fine and make a groundbreaking admission of wrongdoing to settle an investigation into market manipulation, involving the bank's multi-billion dollar trading loss in London. The CFTC regulator had charged the bank with "recklessly employing a manipulative device in the market for credit default swaps and financial contracts" that enabled it to violate new rules under the Dodd-Frank Act.

- Front Page Headline, Washington Post – "U.S. Senate Reaches Bipartisan Fiscal Agreement. Senate Majority Leader Harry Reid (D-Nev.) and Senate Minority Leader Mitch McConnell (R-Ky.) announced terms of the agreement on the Senate floor, drawing support from the White House. Democratic aides informed the press that in an 81-18 vote, the Senate passed the bill this afternoon and by a vote of 285-144 the House of Representatives passed the bill tonight. In addition to raising the statutory debt limit (currently \$16.7 trillion U.S.) through February 7, 2014, the emerging legislation would fund the federal government through January 15, 2014. It would also establish a budget committee to resolve broader budget issues; such as whether to replace deep spending cuts to government agency budgets known as the sequester."

#### THURSDAY, OCTOBER 17TH

- Front Page Headline. Globe and Mail – "The Next U.S. Debt Calamity Will Arrive in 90 Days. Since the U.S. Government's spending authority has been restored only until January 15th. the American fiscal crisis which ended last night won't even be that distant a memory by the time the next one promises to begin. Next time, some analysts warn, the debt fight could become more ugly, vexing markets again and angering foreign governments whose economies suffer collateral damage. Michael Hewson, an analyst at CMC Markets in London, remarked: 'Talk about kicking the proverbial can down the road. The only difference is we get to use the phrase with respect to the U.S. instead of Europe. Isn't irony sweet and now we can look forward to more broken American politics in 2014, when the Tea Party is likely to be much more strident in its tactics, having lost badly this time around.' Pierre Fournier, a geopolitical analyst at the National Bank of Canada, observed: 'I just don't see what kind of compromise they could reach, given how the lines are so (stringently) drawn. While I'm not saying that the two parties won't come to an agreement, the most likely scenario seems to be another period of (political) brinkmanship.'"
- The Philadelphia Federal Reserve reports its monthly Business Outlook Survey – covering eastern Pennsylvania, southern New Jersey and Delaware – revealed its future general activity index rose to a reading of 60.8 in October from a level of 58.2 in September – its highest reading since September 2003 – citing: "The survey's future indicators have suggested markedly improved optimism among the reporting manufacturers over recent months." See the second chart on the next page.

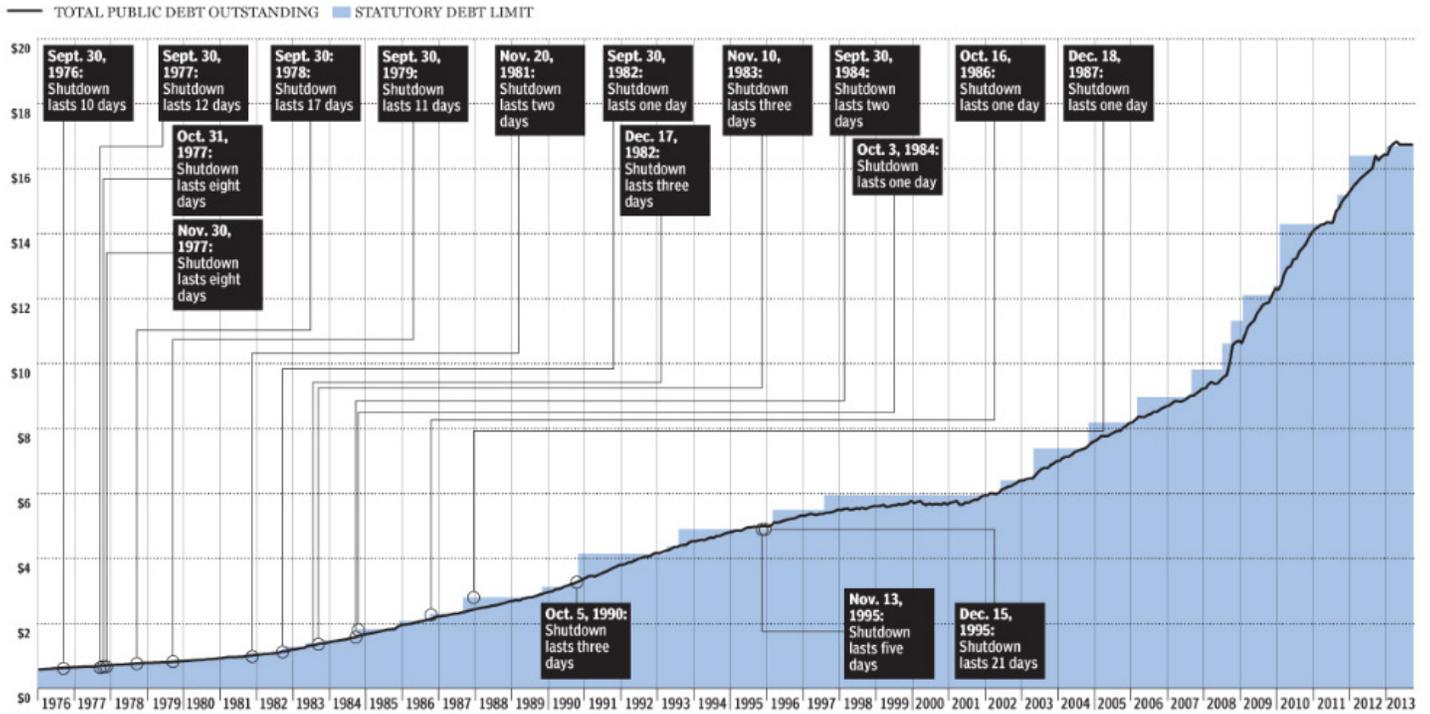


JP Morgan Chase CEO Jamie Dimon(left) in a press interview.  
Source: Associated Press

THE ONGOING U.S. DEBT DRAMA

A deal to break the impasse in Washington after a 16-day shutdown that began Oct. 1 will allow the U.S. government to continue borrowing to pay its obligations, at least until Feb. 7 when the debt ceiling impasse rears its head again.

U.S. GOVERNMENT SHUTDOWNS, DEBT AND DEBT CEILING IN TRILLIONS OF U.S. DOLLARS



NOTE: Total public debt may exceed the statutory debt limit but not all public debt is subject to the limit. The fiscal year for the U.S. Government is Jul. 1 to Oct. 1.  
SOURCE: U.S. TREASURY

ANDREW BARR / NATIONAL POST

Markets Chart of the Day

Philly Fed Forward Outlook Index



## FRIDAY, OCTOBER 18TH

- The National Bureau of Statistics reports China's gross domestic product (GDP) grew by 7.8% in the July-September quarter, accelerating from a 7.5% pace in the April-June quarter. However, concurrently released September data revealed a broad easing for the Chinese economy, with growth in retail sales, industrial production and construction activity all slightly lower. In a memo to clients, Bank of America Merrill Lynch economists noted: "We believe the People's Bank of China will shift its monetary policy slightly, from moderate expansion to a neutral stance, with neither further easing, nor tightening ... With the Communist Party's Central Committee meeting in November, the new government will likely prevent further growth of credit and choose not to expand its mini fiscal stimulus program."
- Front Page Headline, Wall Street Daily – "The Canadian Dollar Has A Bright Future. For openers, Canada is rich in natural resources, such as timber, gold and crude oil. If, as and when the prospects for global (economic) growth improve, Canadian

resources will be in huge demand from developed and developing economies alike; establishing a trend that will remain for years. Canada also has its fiscal house in good order, so its 'AAA' credit rating is secure. To be sure, Canada has a lot of potential."

- Front Page Headline, Bloomberg News – "Canada / European Union Reach Free Trade Agreement. After four years of negotiations, Canadian Prime Minister Stephen Harper and European President Jose Barroso announce an 'agreement in principle' for a free trade treaty at a Brussels press conference. The free trade pact – which requires the approval of EU national governments and the European Parliament – will eliminate about 98% of all Canadian and EU tariff lines on the first day of its implementation. A 2008 joint study determined the agreement would increase Canada's annual gross domestic product (GDP) by 8.2 billion euros (\$10.8 billion CAD). The agreement moves beyond trade by including provisions on intellectual property – a key ingredient for EU negotiators – investment and government procurement."

## CLOSING LEVELS FOR FRIDAY, OCTOBER 18TH.

## WEEKLY CHANGE

Dow Jones Industrial Average	15,399.65	+162.54 points
Spot Gold Bullion	\$1,314.60 (U.S.)	+ \$46.40 per oz.
S&P / TSX Composite	13,136.09	+ 243.98 points
10 – Year U.S. Treasury Yield	2.58%	– 11 basis points
Canadian Dollar	97.22 cents (U.S.)	+ 0.64 cent
U.S. Dollar Index Future	79.611	– 0.799 cent
WTI Crude Oil (November)	\$100.81 (U.S.)	– \$1.26 per barrel

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