LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, October 28th

Speaking at a press conference from Finance Canada headquarters in Ottawa – following a meeting with private sector economists – Canadian Finance Minister Jim Flaherty declared: "I can tell you that our

MONDAY, OCTOBER 28TH

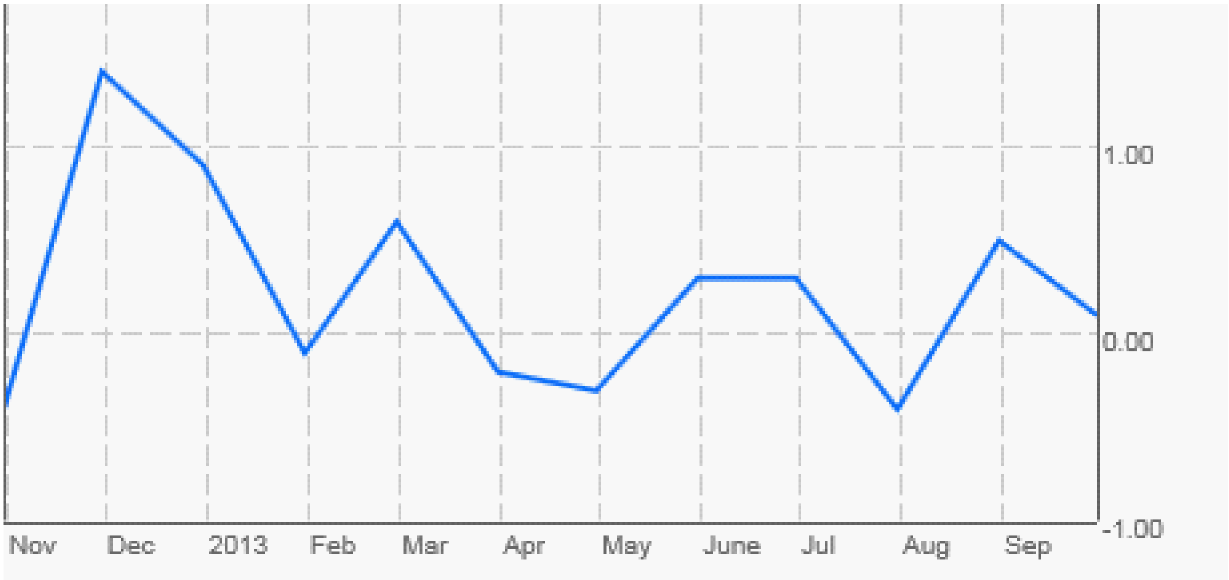
(strategic) plan is to budget for a surplus in the fiscal year ending March 31, 2015 and not a tiny surplus. There will be no doubt that the budget will be balanced during fiscal 2015."

- Front Page Headline, Globe and Mail – "Detroit's Financial Status Shocking: Emergency Manager. During the fourth day of Detroit's landmark bankruptcy eligibility trial, the City's emergency manager, Kevyn Orr, testified: 'No knowledgeable person has ever disputed my claim that Detroit is insolvent. Every neighbourhood, even the good ones suffered from some degree of blight. Given the amount of litigation from creditors – who were not willing to negotiate compromises in order to reduce Detroit's debt – it became clear to me there was going to be no other way to pursue a comprehensive and orderly restructuring of the City's problems in an expeditious way.' Detroit is about $18.5 billion (U.S.) in debt, which includes $3.5 billion (U.S.) in pension obligations. Detroit is seeking to prove it is bankrupt and entitled to protection from creditors under the federal Chapter 9 municipal bankruptcy law. City unions, pension funds and retirees are among those opposing Detroit's bankruptcy petition, the largest municipal bankruptcy filing in U.S. history."

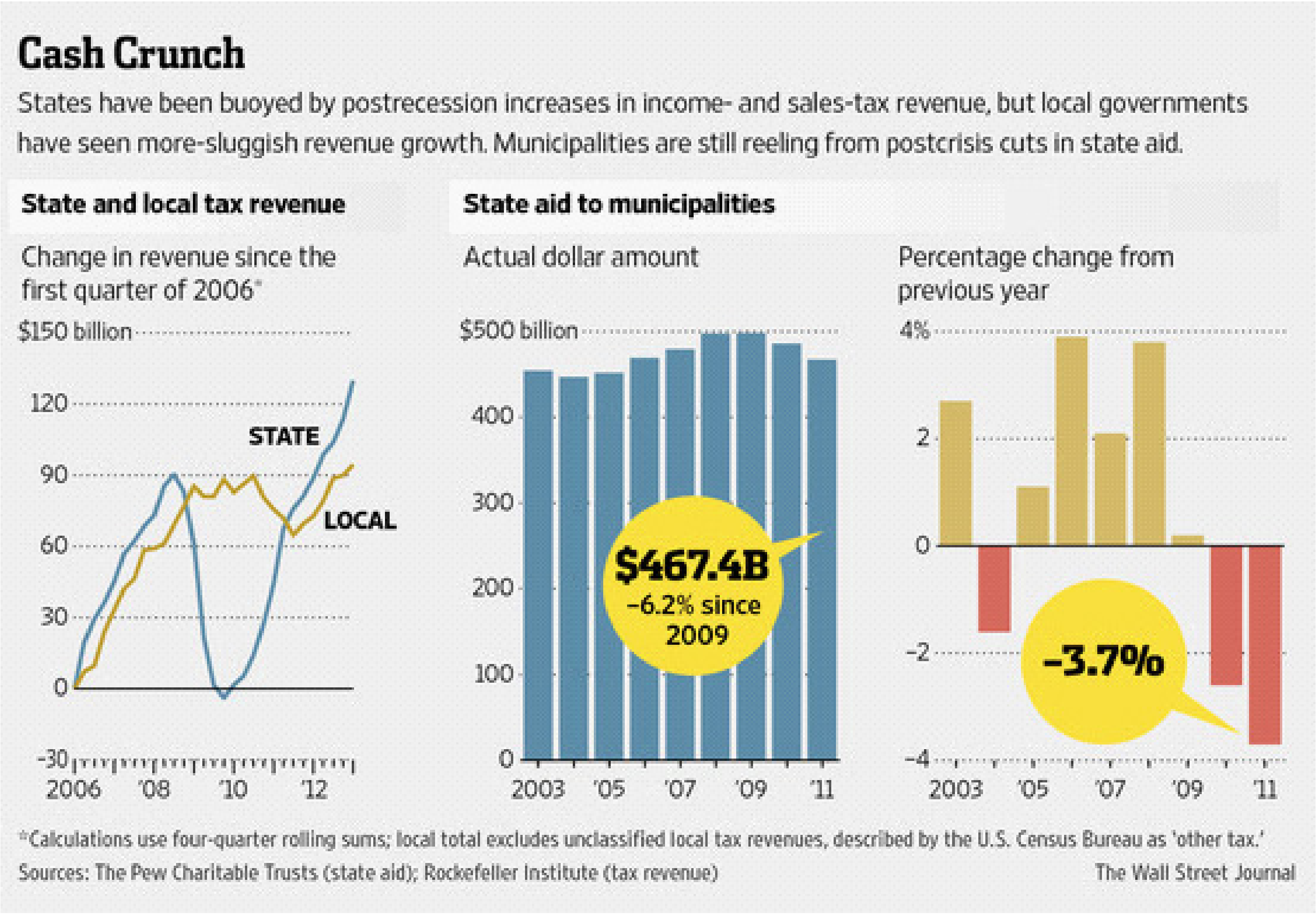
- Front Page Headline, Wall Street Journal – "American Cities Grapple with Finances. Buffeted by steep declines in state aid, rising pension and health care costs, as well as modest property tax revenues, many urban centers are still struggling several years after the arrival of the financial crisis. An analysis by the WSJ – via the auspices of Iowa based Merritt Research Services LLC – examined 2012 filings from the 250 largest U.S. cities by population. While many cities made conservative choices which protected them during tough times, the overall picture today reveals signs of fragility. Of the 250 cities, more than half still have financial reserves below their 2007 levels. They also have assumed more debt: 114 cities increased total debt loads from 2007 and 2012. The real estate markets in 100 cities are still worse than they were in 2007, an acute problem for municipal governments that rely on property taxes as a major source of revenue. Richard Ciccarone, president of Merritt Research concluded: 'While the financial crisis thinned municipal reserves, the weakest of the cities haven't rebuilt their balances.' In a September research report, Moody's Investors Service noted: 'More local governments today are facing heightened long-term fundamental credit challenges than at any time in the recent past. Historically, municipal bankruptcies were more often triggered by temporary cash flow problems, such as a major lawsuit loss. Nowadays, bankruptcies, although rare, are more often linked to fundamental problems, such as outsized liabilities or stagnant revenue. These (financial) woes aren't as easily resolved through the bankruptcy process."

- The Federal Reserve reports U.S. factory production rose by 0.1% in September following a downwardly revised gain of 0.5% in August; while total industrial production – which includes mines and utilities – rose by 0.6% due to higher power demand on electricity grids. See chart below.

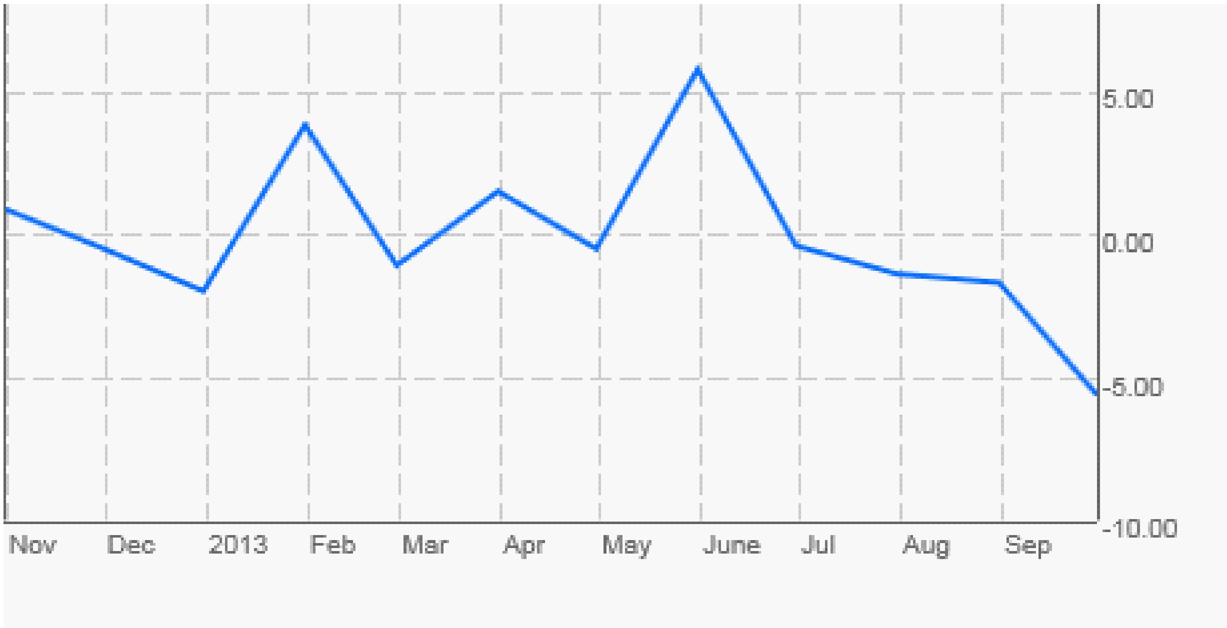
Rate Chart for U.S. Factory Production



Source: Bloomberg



Rate Chart for U.S. Pending Home Sales



Source: Bloomberg

- The National Association of Realtors reports its index of U.S. pending home sales declined by 5.6% in September – the fourth consecutive month of declines – mainly affected by rising mortgage rates.

TUESDAY, OCTOBER 29TH

- Front Page Headline, Globe and Mail – "U.S. Steel to Close Hamilton Works at Year End. Via a conference call with industry analysts, U.S. Steel President and CEO Mario Longhi announced the company will be closing its Hamilton, Ontario, steel plant on December 31st. permanently: 'Decisions like this are always difficult, but they're necessary to improve the cost structure of our Canadian operations. This will save the company about $50 million (U.S.) a year.' The Hamilton plant employs approximately 2,200 people at its 445 hectare production complex.

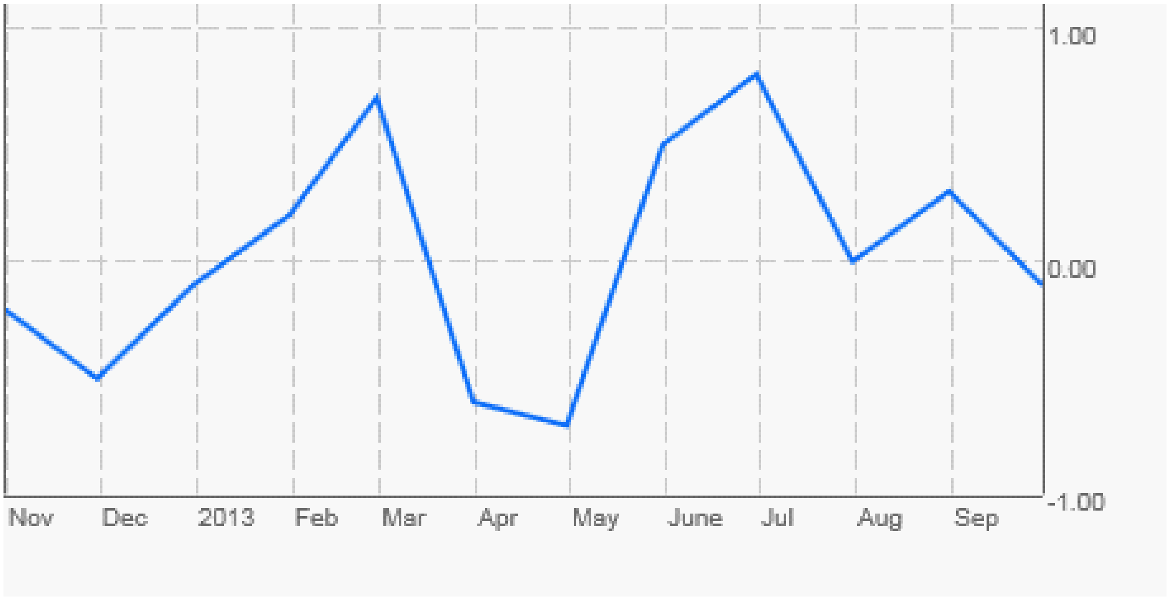
A red laker is docked at a U.S. Steel pier in the port of Hamilton.
Source: Globe and Mail

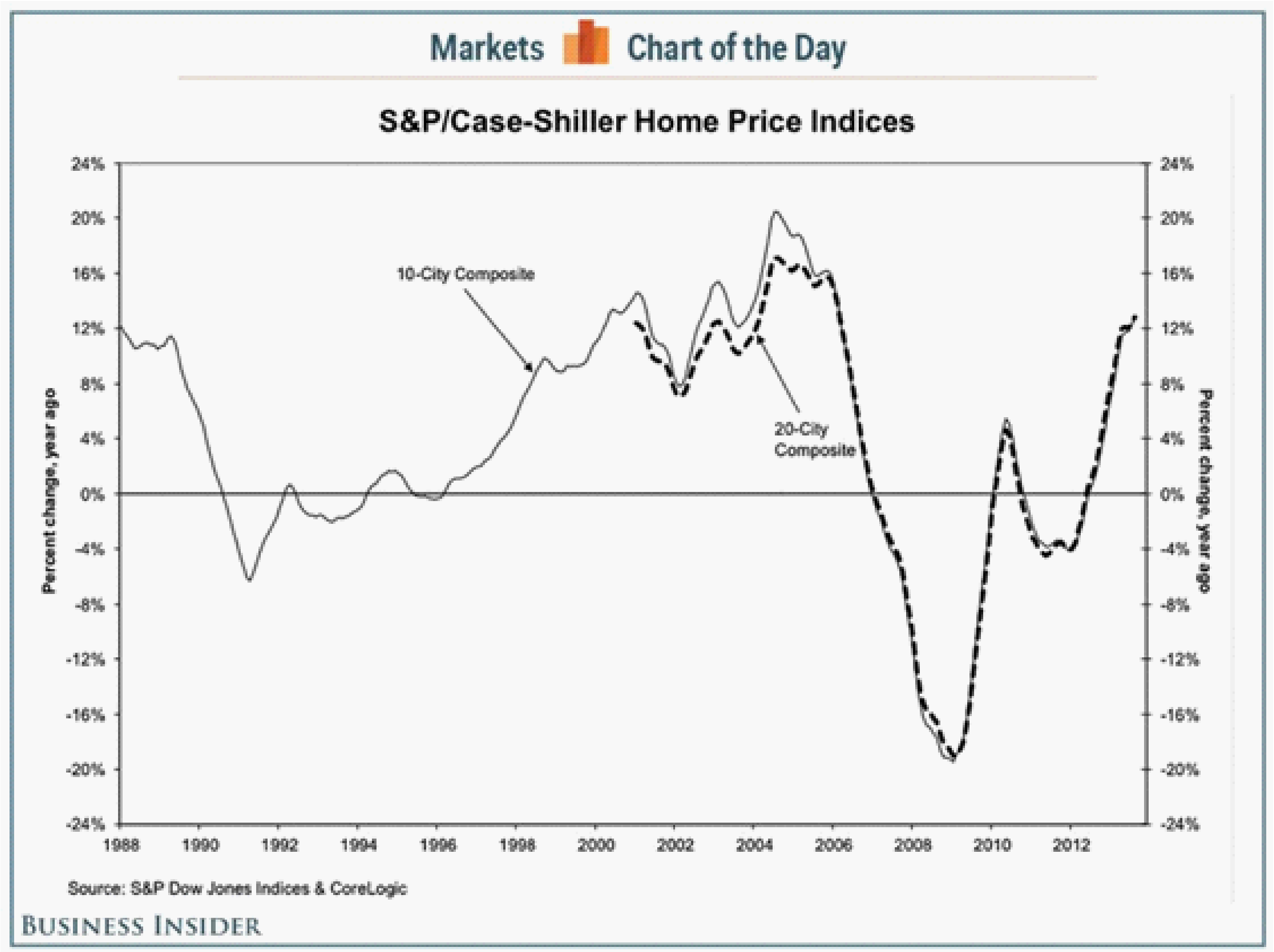
- The New York-based Conference Board reports its consumer confidence index declined to a reading of 71.2 in October from a downwardly revised level of 80.2 in September. Michael Brown, an economist at Wells Fargo in Charlotte, North Carolina, commented: "What we're witnessing is more hesitancy among consumers, given the (federal) fiscal policy uncertainty and the absence of confidence about future employment prospects."

- S&P/Case-Shiller report their index of property prices in 20 U.S. cities rose by 12.8% in August on a year-over-year basis, following a 12.3% annual gain registered in July. Brian Jones, an economist at Societe Generale in New York noted: "More encouraging than the price acceleration itself was that the breadth of the increase was across the entire country."

- The Labor Department reports the U.S. producer price index (PPI) declined slightly by 0.1% in September, following a gain of 0.3% in August, citing mainly lower food costs. Laura Rosner, an economist at BNP Paribas in New York, observed: "Since domestic demand (generally) remains subdued, companies are not only avoiding pricing power, but also, they are lowering their prices and competing for demand in the economy."

Bloomberg Rate Chart for U.S. Producer Price Index





WEDNESDAY, OCTOBER 30TH

- The Labor Department reports the U.S. consumer price index (CPI) rose slightly by a seasonally adjusted 0.2% in September, citing higher costs for medical care, shelter and many forms of fuel. Julia Coronado, an economist with BNP Paribas in New York, noted: "There really isn't any inflationary pressure in the U.S. (economy at this time). This means the Federal Reserve can focus more on the employment side of its mandate and is not constrained by inflation developments in any way."

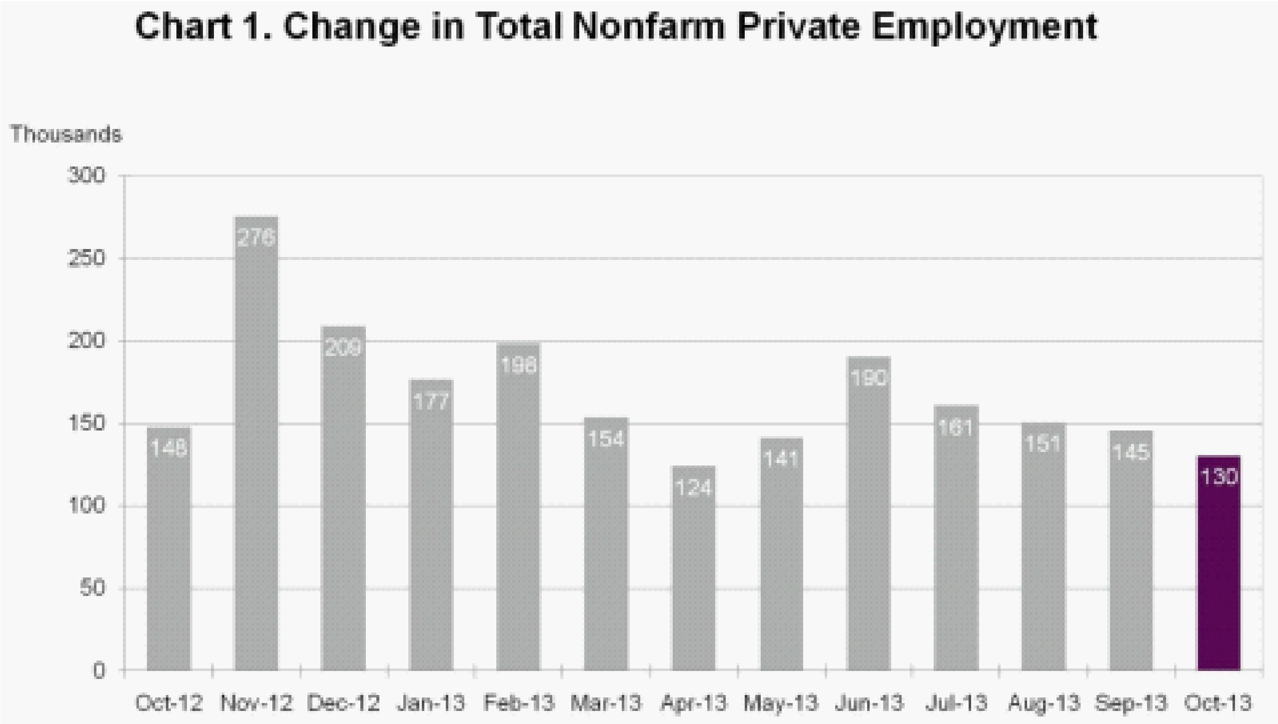
- Front Page Headline, Financial Times – "U.S. Federal Budget Deficit Declines Below $700 Billion. The U.S. Department of the Treasury reports for the fiscal year ended September 30, 2013, the federal deficit fell to $680 billion (U.S.) – 4.1% of gross domestic product – compared to $1.09 trillion (U.S.) – 6.8% of GDP in 2012."

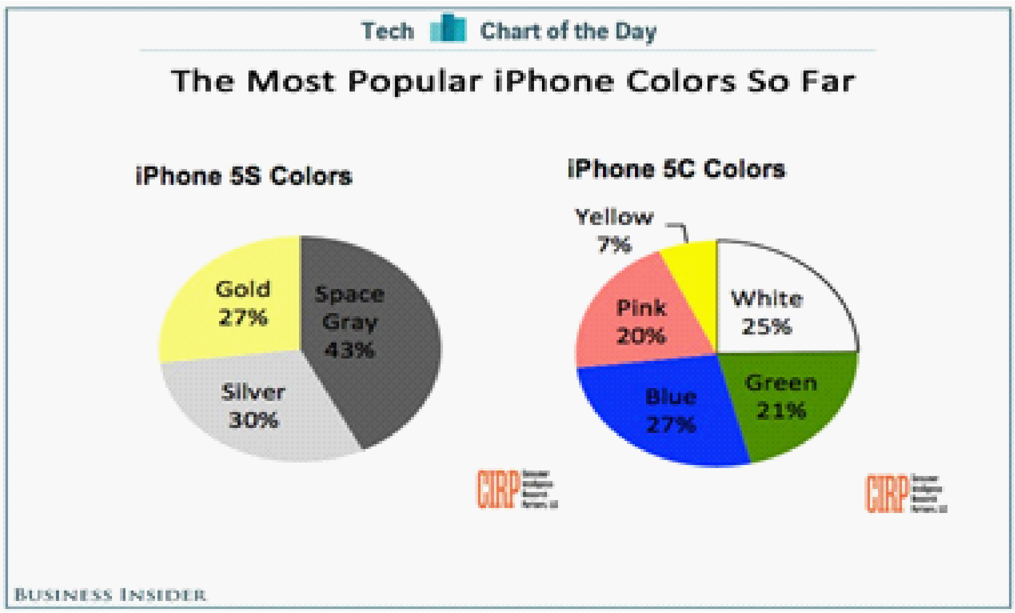
- The Roseland, New Jersey-based ADP Research Institute reports U.S. companies added 130,000 workers in the private sector in October, the smallest gain in six months. Scott Brown, chief economist at Raymond James in St. Petersburg, Florida, commented: "Obviously, there was some (negative) impact by the federal government (partial) shutdown. The Federal Reserve has been very clear that the tapering decision is going to remain data dependent and this (private sector payrolls report) suggests (hiring levels) are still not quite strong enough."

- Front Page Headline, Financial Times – "Fed Stays the Course with Monetary Policy. Following its monthly policy meeting today, the Federal Open Market Committee (FOMC) left its current quantitative easing policy unchanged: 'Taking into account the extent of federal fiscal retrenchment over the past year, the FOMC sees the improvement in economic activity and labor market conditions since it began its asset purchase program as consistent with growing underlying strength in the broader economy. However, the Committee decided to await more evidence that progress will be sustained before adjusting the pace of its purchases. Accordingly, the FOMC decided to continue purchasing additional agency mortgage-backed securities at a pace of $40 billion (U.S.) per month and long-term Treasurys at a pace of $45 billion (U.S.) per month."

THURSDAY, OCTOBER 31ST

- Shocking Report, Business Insider – "The Gold iPhone Is the Least Popular Model in the U.S. According to a survey by Consumer Intelligence Research Partners (CIRP), the gold iPhone is the least popular version from three choices. The gray space model is the most popular with 43% of buyers; the silver version at 30% and the gold model at 27%.





- The Institute for Supply Management (ISM) reports its purchasing managers' index (PMI) for manufacturing in the Chicago area rose to a reading of 65.9 from a level of 55.7 in September, citing the volume of new orders climbed to its highest level in nine years to a reading of 74.3. Ryan Sweet, an economist at Moody's Analytics in West Chester, Pennsylvania, commented: "Manufacturing in the Midwest is getting a lift from autos, which have been a driving force for the PMI over the past year or so. Still, any time there is a big swing in the index of this magnitude, one always should take it with a grain of salt, particularly with the slowing in the domestic economy and the heightened (federal fiscal) policy uncertainty."

- The Labor Department reports U.S. claims for state unemployment benefits declined by 10,000 to a seasonally adjusted 340,000 in the week ended October 26th. while continuing claims – those drawn by workers for more than a week – increased by 31,000 to 2.881 million in the week ended October 19th.

- Eurostat reports German retail sales declined by 0.4% in September to their lowest level since March, prompting some international concern regarding Germany's econometric model since retail sales only comprise 25% of the country's economy.

- Front Page Headline, Daily Telegraph U.K. – "B.P. Confirms Gulf of Mexico Oil Spill Cost at $43 Billion (U.S.). The costs of the 2010 disaster had already increased to $42.4 billion (U.S.) when BP last updated the market in July … At that time, B.P. warned that it had 'just $300 million (U.S.) left for compensation and that figure would likely be exceeded in the 3rd. quarter, with additional amounts charged to the income statement."

The explosion of the Deepwater Horizon oil platform in 2010. Photo source: EPA

- Front Page Headline, Mish's Global Economic Trend Analysis – "Spain Is on the Brink of Deflation. As translated from El Economista and reported by the National Statistics Institute yesterday, Spain's consumer price index (CPI) declined by 0.4% in October, citing falling prices for food and non-alcoholic beverages, as well as lower university education costs. While deflation requires a decline in prices over an extended period of time, the drop in October's CPI represents its fourth consecutive monthly decline, pushing the index into negative territory on a year-over-year basis. Moreover, as translated from an editorial in El Confidencial: 'Liars, heartless and irresponsible (politicians) have brought misery to the poor and crushed the middle class with confiscatory taxes. These are the qualifications of Prime Minister Rajoy and his henchmen who, hypocritically, celebrate deception to the populace. They have not taken Spain out of the recession; rather they have brought us to the brink of deflation that will cause more poverty, pain and tears … Pointedly, Rajoy has begun marketing the same lies as Zapatero was regarding the 'green shoots' of 2009 that have not yet arrived."

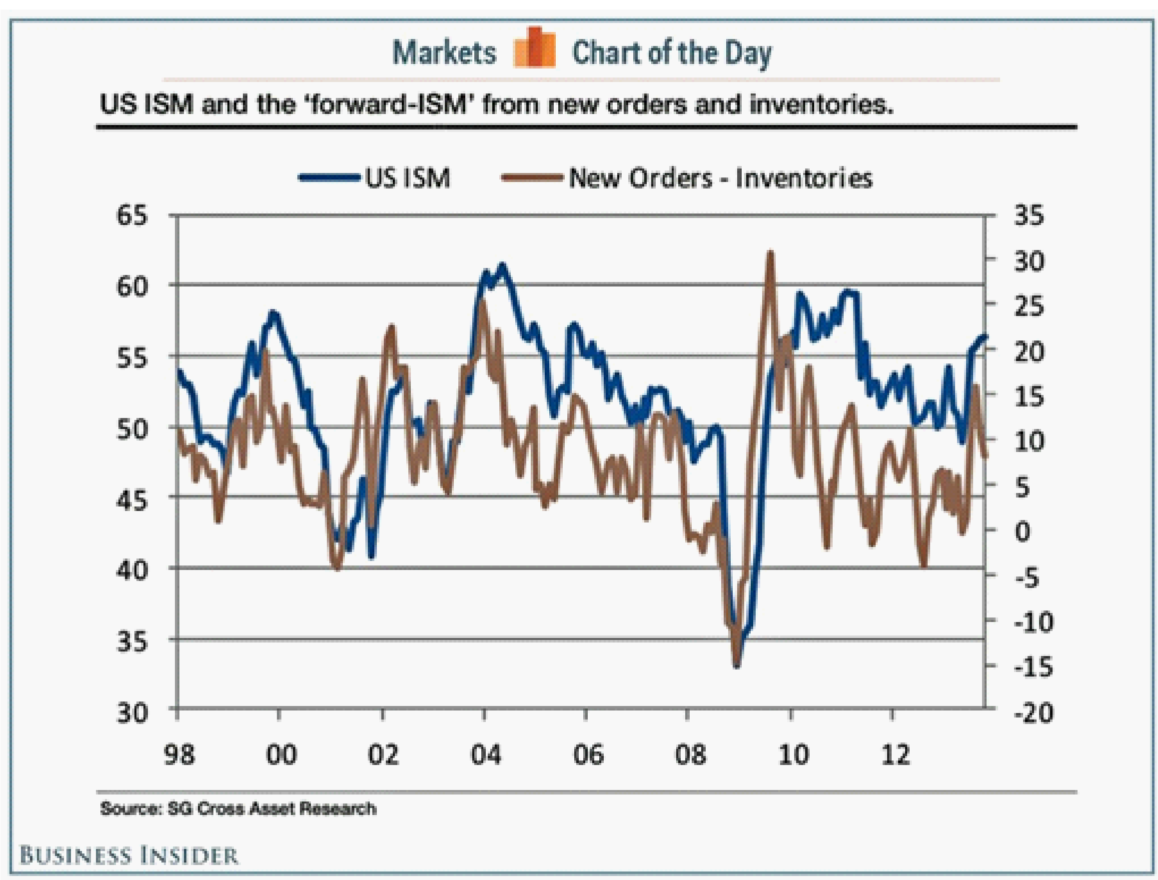
FRIDAY, NOVEMBER 1ST

- Fitch Ratings affirms Spain's sovereign debt credit rating at 'BBB' but raises its rating outlook to stable from negative, citing: "improvements in the country's policy track record, budget (process), labour market and pension system. However, medium term (economic) growth prospects are weak, (since) all sectors of the (domestic) economy remain heavily indebted and the unemployment (rate) is exceptionally high (at 26%)."

- The Tempe, Arizona-based Institute for Supply Management's (ISM) reports its index for the U.S. manufacturing sector rose to a reading of 56.4 in October from a level of 56.2 in September, citing expansion in the textile and transportation industries, as well as a higher level of exports.

- Standard and Poor's lowers Ukraine's sovereign debt credit rating to 'B' (Low) with a negative outlook – six levels below investment grade – and on par with Greece and Belize. S&P analysts stated: "The (credit rating) downgrade reflects our view that the government's (economic) strategy is increasingly unlikely to secure sufficient foreign currency to meet its elevated external financing needs. Devaluation of the Ukrainian hryvnia has become more likely. The potential magnitude of this has also increased in light of the government's defense of its exchange rate through the depletion of its foreign currency reserves." Yesterday, the Ukraine government pledged to stem the outflow of its foreign currency reserves in 2014, since the International Monetary Fund (IMF) has stated that it wouldn't ease conditions for a new bailout loan.

- The Royal Bank of Canada (RBC) reports its Canadian manufacturing Purchasing Managers' Index (PMI) rose to a seasonally adjusted reading of 55.6 in October from a level of 54.2 in September, the highest level since April 2011. The forward-looking new orders component matched that record by rising to a reading of 58.5; while the output measure rose to a level of 56.6.



- Front Page Headline, Financial Times – U.S. Car Sales Return to Double-Digit Growth. American consumers purchased new vehicles in October at about a 13% seasonally adjusted annual rate (SAAR) higher than in the same month a year ago. Higher sales were recorded by the three big domestic automakers – General Motors (by 16%), Ford Motor (by 14%) and Chrysler (by 11%), while Toyota posted an 8.8% gain, but Volkswagen suffered an11% decline. Michelle Krebs, an analyst at Edmunds.com, noted: 'While Hurricane Sandy depressed car sales on the east coast in October 2012, nevertheless, there is underlying strength in the U.S. auto industry. The fundamentals of an aging fleet and widely available, relatively cheap credit continue to unleash pent-up demand."
- Front Page Headline, Washington Post – "Fannie Mae Sues 9 Banks over Alleged Libor Manipulation. The U.S. government-owned Federal National Mortgage Association (Fannie Mae) files a lawsuit against nine of the world's largest banks over losses that the mortgage finance giant suffered from the alleged manipulation of the London Interbank Offered Rate (Libor), which serves as a standard interest rate for loans between banks; as well as a global benchmark for about $360 trillion (U.S.) in loans to businesses and consumers. The lawsuit, filed in federal court in Manhattan, alleges Fannie Mae lost about $800 million (U.S.) on "swaps, mortgages, mortgage-backed securities and other variable rate transactions tied to Libor. Fannie Mae estimates that it lost $332 million (U.S.) alone on interest rate swaps – financial instruments used to hedge interest rate risk on products such as mortgages. Fannie Mae has accused Barclays, UBS, internal Rabobank Groep, Royal Bank of Scotland, Deutsche Bank, Credit Suisse, Bank of America, Citibank and JPMorgan Chase of colluding to artificially lower the Libor benchmark from 2007 to 2010."

CLOSING LEVELS FOR FRIDAY, NOVEMBER 1ST.		WEEKLY CHANGE
Dow Jones Industrial Average	15,615.55	+ 45.27 points
Spot Gold Bullion	$1,313.20 (U.S.)	– $39.30 per oz.
S&P / TSX Composite	13,337.46	– 61.96 points
10 – Year U.S. Treasury Yield	2.62%	+ 11 basis points
Canadian Dollar	95.90 cents (U.S.)	+ 0.25 cent
U.S. Dollar Index Future	80.722	+ 1.558 cents
WTI Crude Oil (December)	$94.61 (U.S.)	– $3.24 per barrel