

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



Monday, October 7th

Front Page Headline, MarketWatch News – “U.S. House Speaker Boehner Seeks Government Shut-down Solution by Tying Talks to Statutory Debt Limit. The U.S. federal government partial shutdown enters its second week with Republicans and Democrats

MONDAY, OCTOBER 7TH

still bitterly divided over the federal budget for fiscal 2014. In an ABC News interview yesterday, House Speaker John Boehner (R. Ohio) stated: ‘The votes are not in the House to pass a clean debt limit bill and President Obama is risking default by not having a conversation with us. I’m not going to (introduce a bill) to raise the (statutory) debt limit without a serious conversation about dealing with problems that are driving the debt up.’ In an interview, Senator Chuck Schumer (D., N.Y.) responded to Speaker Boehner’s comments: ‘I will predict to you today that Speaker Boehner will not let us default. A default would be so calamitous that even if there’s only a 30% to 40% chance of it (occurring), markets tend to freeze and pull us into recession. Speaker Boehner can’t risk this and he knows it.’

- Statistics Canada reports the nation’s seasonally adjusted value of building permits declined by 21.2% to \$6.34 billion (CAD) in August, from a revised record high of \$29.9 billion (CAD) in July. Statscan noted: “With this decline, the trend in the value of building permits has become relatively flat since the beginning of 2013.”
- French mobile phone manufacturer, Alcatel-Lucent, announces job layoffs of 15% of its global workforce, amounting to about 10,000 employees by the end of 2015. Chief Executive Officer Michel Combes elaborated: “The Company will leave its Paris head office at the base of the Eiffel Tower for less expensive headquarters in the suburbs.”



Company CEO Michel Combes.

Source: Agence France-Presse / Getty Images

TUESDAY, OCTOBER 8TH

- Front Page Headline, Wall Street Journal – “Past Rifts over Greece Cloud Talks on Future Financial Rescue. According to confidential documents which contradict the International Monetary Fund’s public statements, the IMF proceeded with its record 2010 financial bailout of Greece despite deep internal divisions over whether or not it would work. The new details of the rift surface as the IMF is now pressuring European governments to forgive some of Greece’s debts, amid a new round of difficult bailout talks. The suggestion is unpopular in Germany and other European Union countries because their taxpayers would have to absorb the losses. However, despite the controversy, debt

forgiveness cannot be ruled out because the IMF is now making future financial support for Greece conditional upon significantly reducing the country's debt burden. Undoubtedly, the topic will be high on the agenda when finance ministers from around the world assemble in Washington this week for the IMF's annual meeting."

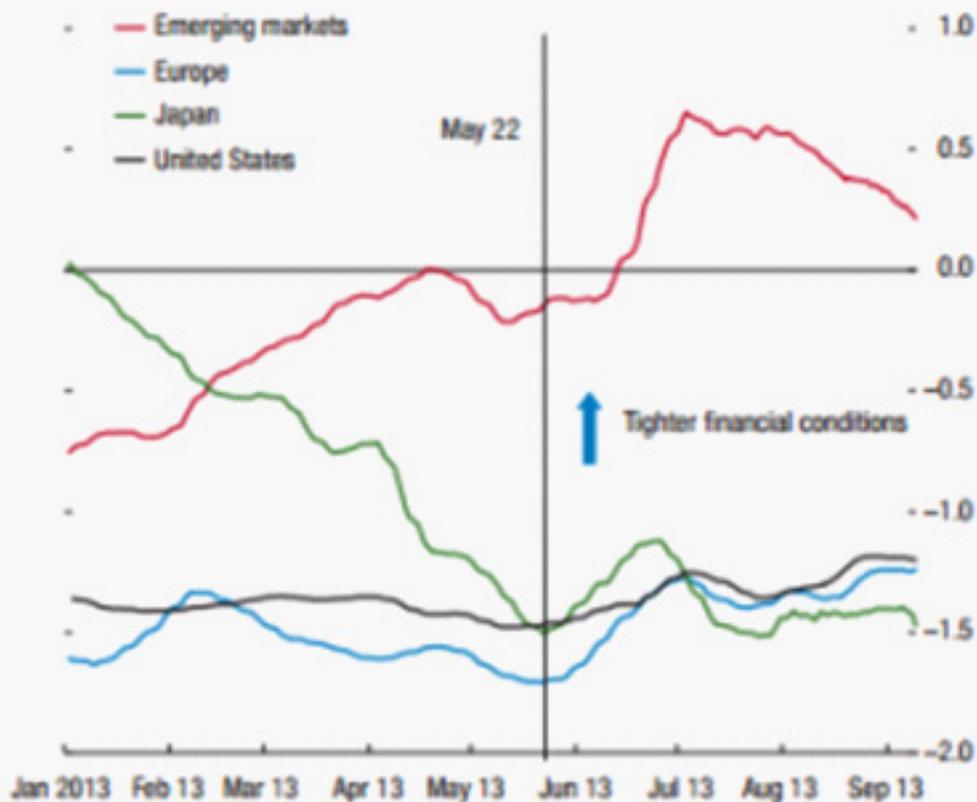
- Front Page Headline, Daily Telegraph U.K. – "U.S. Stock Markets Tumble as Political Gridlock Continues. At a Washington press conference, U.S. President Barack Obama warned: 'The White House is exploring all contingencies to enable us to maintain our debt payments if our \$16.7 trillion statutory debt limit is breached. However, there is no magic wand to allow us to wish away the chaos that could ensue if – for the first time in our history – we fail to pay our bills on time.' President Obama's comments sent the Dow Jones Industrial Average (DJIA) tumbling 159.71 points to close at 14,777; whilst the S&P 500 Index declined by 16.72 points to close at 1,665. The London FTSE 100 had already closed down 71 points to 6,635."



A somber U.S. President Obama at today's press conference. Source: AFP / Getty Images

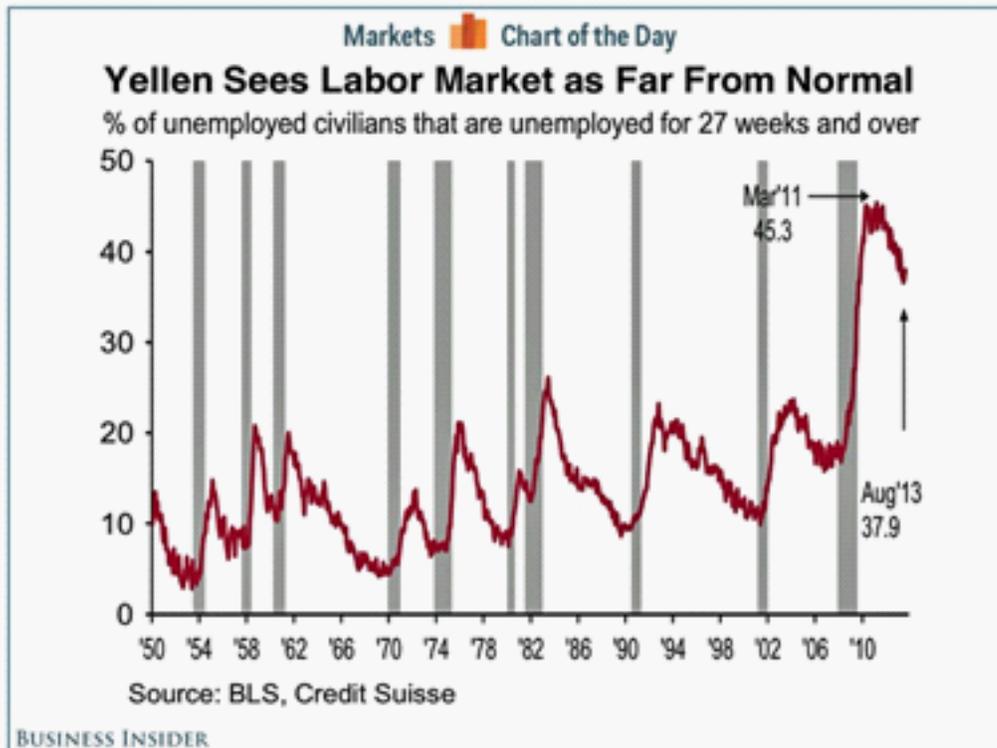
WEDNESDAY, OCTOBER 9TH

**Figure 1.4. Global Financial Conditions**  
(Index; normalized, two-week moving averages)



Source: Goldman Sachs Financial Conditions Index.

- Front Page Headline, Financial Times – “Fed QE Tapering Threatens \$2.3 Trillion (U.S.) in Bond Losses: IMF. In its latest Global Financial Stability Report (GFSR), the International Monetary Fund warned: ‘If the U.S. Federal Reserve’s likely move to begin scaling back its (monthly) purchases of (fixed income securities), or fallout from a possible American failure to raise its (statutory) debt limit, (causes long-term U.S. Treasury yields to rise by 1% – 100 basis points –) the GFSR estimates that bond portfolio losses could reach \$3.2 trillion (U.S.). In a world of heightened financial stability risks, demonstrated by the flight to safety from emerging markets in the summer, the IMF is concerned that large elements of the world’s financial system remain vulnerable to stresses that might ensue as the extraordinary (stimulus) policies of the post (economic) crisis period are scaled back.”
- *Wakeup call for the IMF’s GFSR: At Long Wave Analytics, we reiterate our belief – expressed in previous publications – that when the U.S. Federal Reserve (FOMC) terminates its quantitative easing program; rather than begin selling its substantial bond holdings into the marketplace; it will likely choose to redeem them at par on their respective maturity dates, for market stability reasons.*
- The Office for National Statistics reports U.K. industrial output declined by 1.1% in August – following an increase of 0.1% in July – the biggest drop since September 2012. The electronics, pharmaceuticals and food and beverage sectors led the decline.
- Front Page Headline, Telegraph U.K. – “U.S. President Obama Nominates Janet Yellen for Chairwoman of the Federal Reserve. In a White House ceremony, U.S. President Barack Obama nominated Ms. Yellen to succeed Ben Bernanke when he retires in January 2014, albeit subject to congressional confirmation, where limited opposition is expected. President Obama praised Ms. Yellen as ‘a proven leader and exceptionally well-qualified for the role and who understands the human cost when Americans can’t find jobs. American workers and families will have a champion in Janet Yellen.’ In accepting the nomination, Ms. Yellen pledged: ‘While the economy is stronger, more needs to be done to reach maximum employment. Too many Americans still can’t find a job, but the Federal Reserve can help if it does its job effectively.’ Ms. Yellen, who has been Vice Chair of the Federal Open Market Committee (FOMC) since 2010 and one of the key architects of its current monetary policy; if confirmed, will become the first woman chair person in the central bank’s 100-year history.”





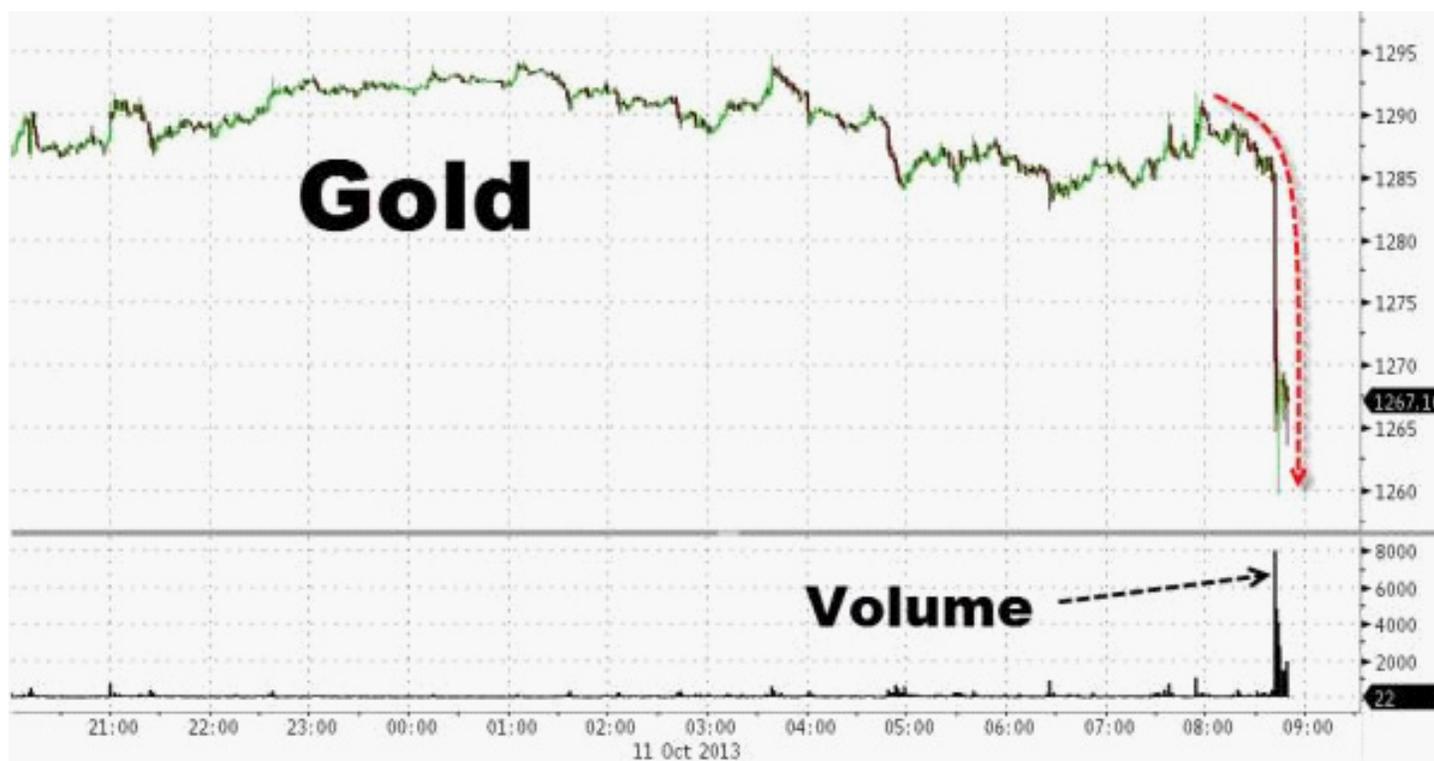
U.S. Federal Reserve Chair Designate Janet Yellen.  
Source: Bloomberg News

## FRIDAY, OCTOBER 11TH

- Statistics Canada reports the country's unemployment rate declined to 6.9% in September – the lowest since December 2008 – from 7.1% in August; citing job creation slowed to 11,900 from 59,200 as 21,400 workers aged 15 to 24 left the labour force. David Watt, chief economist at HSBC Holdings Plc in Toronto commented: "I'm not expecting a burst of job creation like we saw late last year. At this stage of the economic (recovery), it's disappointing to see such weak labour force growth."
- Thomson Reuters/University of Michigan report the preliminary reading of their consumer confidence index declined to 75.2 in October, from 77.5 in September.
- Front Page Headline, ZeroHedge – "Massive Sell Order Sends Gold Bullion Price to Three Month Low. In what world is it rational to decide that dumping 800,000 ounces of notional gold into the London Fix (or COMEX Open) makes sense? In the space of four minutes, almost two million ounces notional were sold into the gold futures markets today, sending the price of gold bullion to a three month low ... The price of gold collapsed to \$1,263 (U.S.) per ounce in the early trading, as speculative longs couldn't liquidate their positions fast enough. Then it rallied a few dollars and went comatose. No other market trades remotely close to what is transpiring here, with regulators nowhere to be seen." *At Longwave Analytics, we perceive this volatile bullion trading activity over recent months as massive manipulation strategies on the part of a 'Gold Cartel' comprised of both central banks and certain investment banks attempting to protect their respective paper currency markets by discrediting gold.'*

## THURSDAY, OCTOBER 10TH

- The Labor Department reports U.S. initial claims for state unemployment benefits soared by 66,000 to 374,000 in the week ended October 5th. while continuing claims declined by 16,000 to 2.91 million in the week ended September 28th. Those people who have exhausted their traditional benefits and are now receiving emergency or extended benefits from state or federal programs declined by about 27,500 to 1.44 million in the week ended September 21st.
- Thomson Reuters reports the nine major American retailers it tracks posted average sales gains of 2.2% in September, even as they increased promotions. Ken Perkins, an analyst at Retail Metrics, noted: 'September proved to be a difficult month as back-to-school sales were lacklustre at best and the fashion cycle was uninspiring. Consumer confidence waned in part due to concerns about the looming federal government shutdown and continuing consumer focus on big ticket items, such as houses and autos.'



Source: Le Metropole Cafe

CLOSING LEVELS FOR FRIDAY OCTOBER 11TH.		WEEKLY CHANGE
Dow Jones Industrial Average	15,237.11	+ 164.53 points
Spot Gold Bullion	\$1,268.20 (U.S.)	– \$41.70 per oz.
S&P / TSX Composite	12,892.11	+ 133.46 points
10 – Year U.S. Treasury Yield	2.69%	+ 5 basis points
Canadian Dollar	96.58 cents (U.S.)	– 0.58 cent
U.S. Dollar Index Future	80.41	+ 0.279 cent
WTI Crude Oil (November)	\$102.07 (U.S.)	– \$1.77 per barrel

Ian A. Gordon, The Long Wave Analyst [www.longwavegroup.com](http://www.longwavegroup.com)

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