UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, September 23rd

Front Page Headline, Bloomberg News – **"Germans Embrace Merkel with 4 - Year Mandate.**

Monday, September 23rd

German Chancellor Angela Merkel, leader of the Christian Democratic Union Party, won over more of the electorate yesterday than in either of her two previous victories with 41.5% of the vote. Daniel Hamilton, director of the Center for Transatlantic Studies in Washington, commented: 'Ms. Merkel conveys reliability, stability and consistency. She evokes emotion among the German people that's reassuring and conveys a message of no experiments at a time when most other European Union (EU) economies look more troubled than Germany's.' Ms. Merkel's next goal will be to forge a coalition government with the opposition Social Democratic Party.

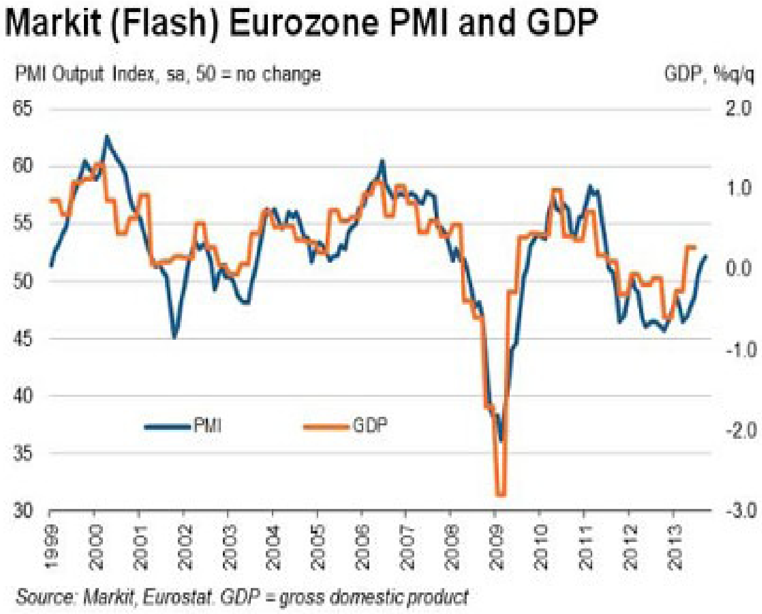
German Chancellor Angela Merkel Source: Bloomberg News

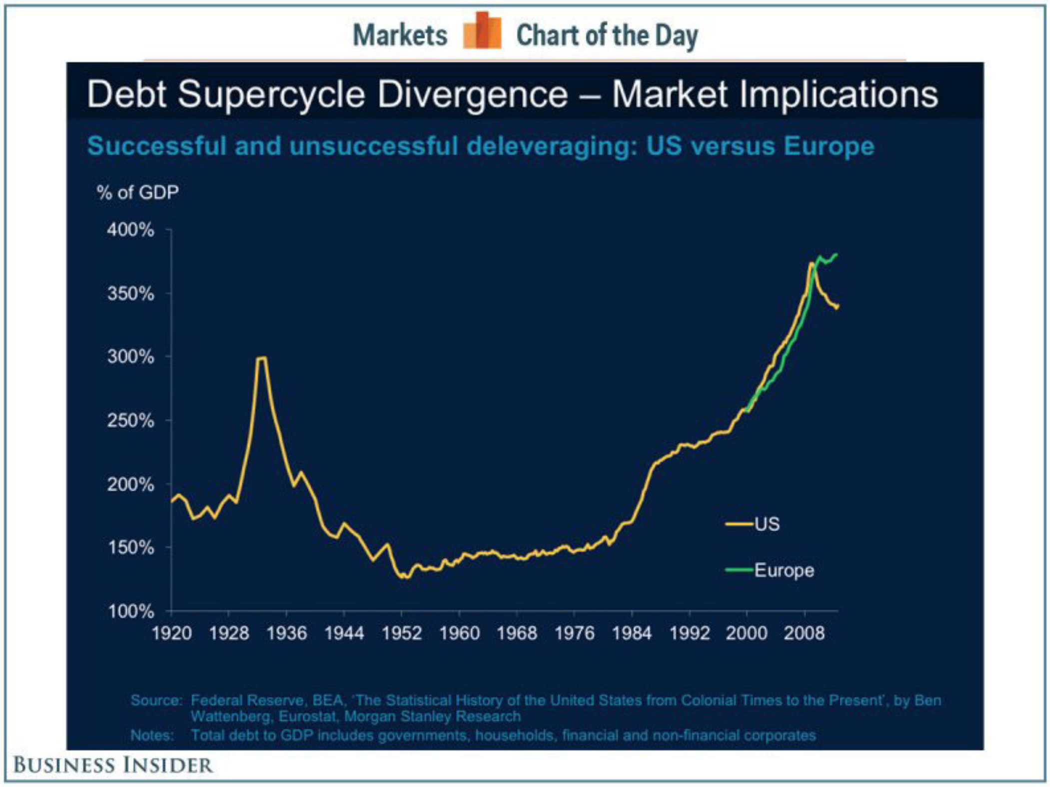
- In a speech to business leaders, Federal Reserve Bank of New York President William Dudley remarked: "Policy makers must forcefully push against economic headwinds, since the U.S. recovery has yet to show any forward momentum and a 2% GDP growth rate—even if sustained—might not be sufficient to generate further improvement in labor market conditions."

New York Federal Reserve President Dudley. Source: Financial Times

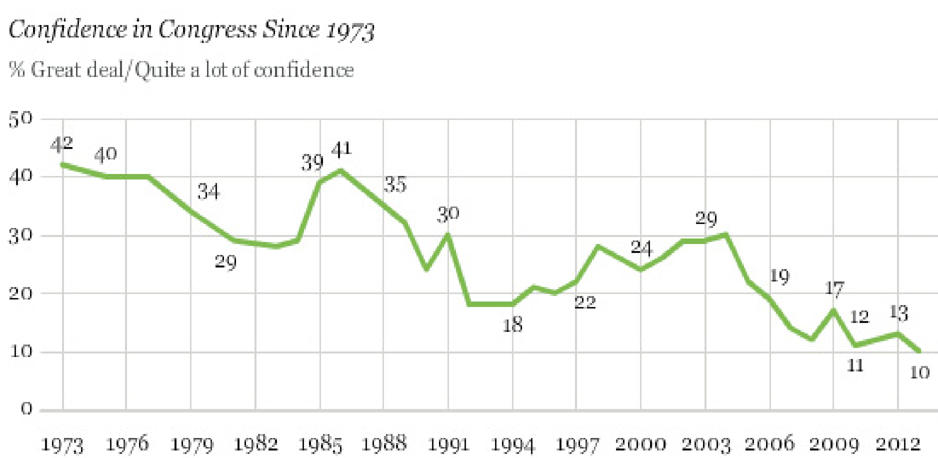
- HSBC Holdings Plc and Markit Economics report their manufacturing Purchasing Managers' Index (PMI) for China rose to a preliminary reading of 51.2 for September, following a level of 50.1 in August. Wang Tao, an economist at UBS AG in Hong Kong observed: 'China's (economic) growth rebound has continued to gather some momentum, especially in exports. Today's (preliminary PMI) reading adds further support to UBS' previous increase in China's 3rd. quarter (GDP) growth forecast to 7.7% from 7.5%.'

- London-based Markit Economics reports its euro-area composite Purchasing Managers' Index (PMI) rose to a reading of 52.1 in August from a level of 51.5 in July. In a memo to clients, Martin van Vliet, an economist at ING Bank NV in Amsterdam, commented: "While the euro-zone economy has ended the 3rd. quarter on an encouraging note, a further strong acceleration in the pace of (economic) recovery seems unlikely over the near term, since deleveraging will (continue to) curb the pace of domestic demand."





- Front Page Headline, Washington Post – **"Government Shutdown Will Cost U.S. Billions.** To understand what the U.S. Congress is risking every time it nears a shutdown, consider what past ones have cost. In 1996, the Office of Management and Budget (OMB) tallied the two major shutdowns of the decade at about $1.4 billion (U.S.). Adjusting for inflation would bring that total to more than $2 billion (U.S.) today."



Source: Washington Post

Tuesday, September 24th

- The New York-based Conference Board reports its consumer confidence index declined to a reading of 79.7 in September from a revised level of 81.8 in August. Lynn Franco, the Board's director of economic indicators, observed: "Consumer concerns about the short-term outlook for both jobs and earnings have resurfaced. While domestic economic conditions appear to have moderately improved, consumers remain cautious that the momentum can be sustained in the months ahead."

- S&P/Case Shiller report their home price index rose by a seasonally adjusted 0.6% in July—the smallest gain since September 2012—and by 12.4% on a year-over-year basis. David Blitzer, index committee chairman at S&P Dow Jones Indices, commented: "It looks like higher mortgage rates are hitting the housing market. So, the rate of house price gains may have peaked."

- Statistics Canada reports the nation's retail sales rose by 0.6% to $40.3 billion (CAD) in July, offsetting a similar decline in June. Nathan Janzen. An economist at the Royal Bank of Canada, noted: "The (retail sales) weakness in June—even outside of the temporary disruptions—was overstated. The bounce back implies (consumer) activity is on a stronger path than what was implied by the June data alone."

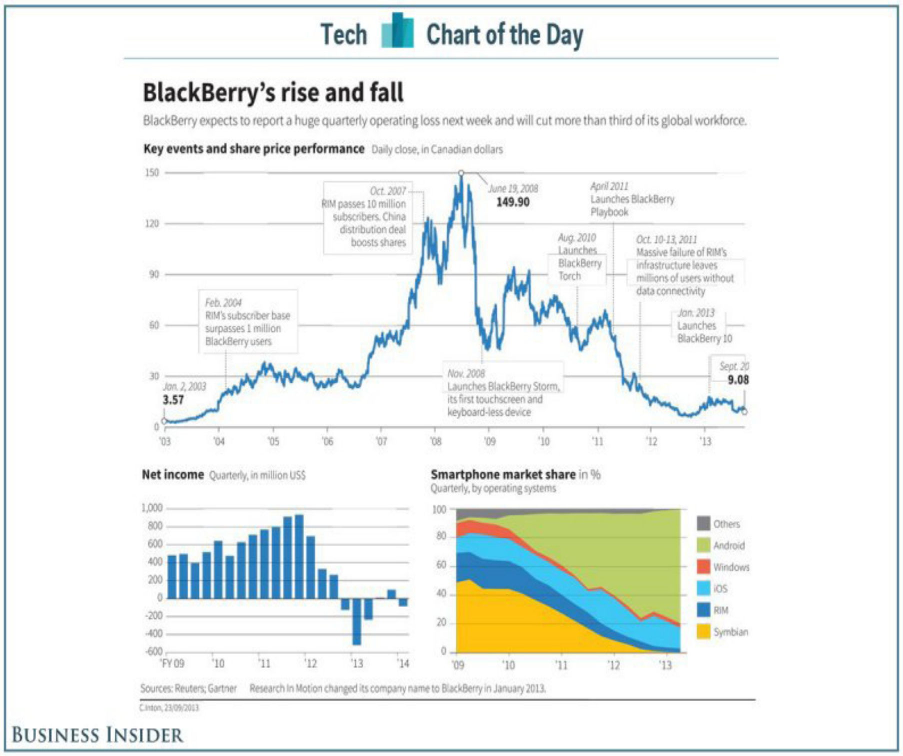
- Citigroup announces 1,000 job layoffs principally in Las Vegas, Nevada and Irving, Texas, citing reduced demand for mortgages and refinancings.

- Front Page Headline, Wall Street Journal – **"No Talks Scheduled on U.S. Statutory Debt Limit.** With no known negotiations now taking place among Congressional lawmakers regarding the U.S. debt ceiling (currently $16.7 trillion U.S.), businessmen and market analysts are uncertain whether an agreement can be reached to prevent the federal government from falling behind on its payments. William Hoagland, a seasoned former Senate Republican aide—primarily on budget matters—exclaimed: 'It's extremely dangerous for President Obama to continuing saying he's not considering anything and he won't consider anything that Republicans suggest. I would say that puts America at risk of actually going over the brink."

Rep. Tom Price (R – Ga.) – center. Source: Associated Press

- Front Page Headline, Financial Times – **"Americans Toy With Their Fiscal Sanity.** In an editorial comment, the FT cites the U.S. Congress needs to regain its senses before disaster hits. There is less than a week to go before a possible U.S. government shutdown and less than a month before the country reaches its statutory debt limit. In neither case is there any reassurance that Congress will avoid a disaster. If this were another country, such dysfunction would be a cause for regret. In the case of the U.S. the effects are global. As the sole superpower and provider of the international reserve currency, the U.S, owes a duty to the world—as well as to itself—to uphold one of the most basic functions of a nation state. Flirting with a government shutdown is pantomime enough. Toying with whether America will honour its sovereign debt obligations—U.S. Treasurys—is pure recklessness. There is still time for Congress to call off a game which risks turning everyone into a loser. Over the past three years, Capitol Hill's taste for fiscal crises has taken steam out of the U.S. recovery and remains the chief obstacle to more robust (economic) growth. In 2011, America arrived at the brink of a default. It was only averted by an agreement that imposed spending cuts at a fragile point in the U.S. (economic) recovery." **See also, Economic Winter – The Increasing Dysfunction of Government in the United States – September 20, 2013.**

- Front Page Headline, Washington Post – **"BlackBerry Agrees to Acquisition by Fairfax Financial.** The beleaguered smartphone company announces it has signed a letter of Intent with Toronto-based Fairfax Financial Holdings for $4.7 billion (CAD). At present, Fairfax owns about 10% of BlackBerry's common shares. The agreement would deliver about $9 (CAD) to existing shareholders and take the company private. Once an essential accessory for Washington insiders, BlackBerry has faltered in its competition with popular smartphones such as Samsung's Galaxy and Apple's iPhone. The company only has 3% of the worldwide smartphone market, according to a 2nd. quarter report by the IDC research firm. Anthony Sabino, a business professor at St. John's University, declared: 'This is BlackBerry's last ditch attempt to simply survive in the face of crushing competition in a market which it essentially invented.'

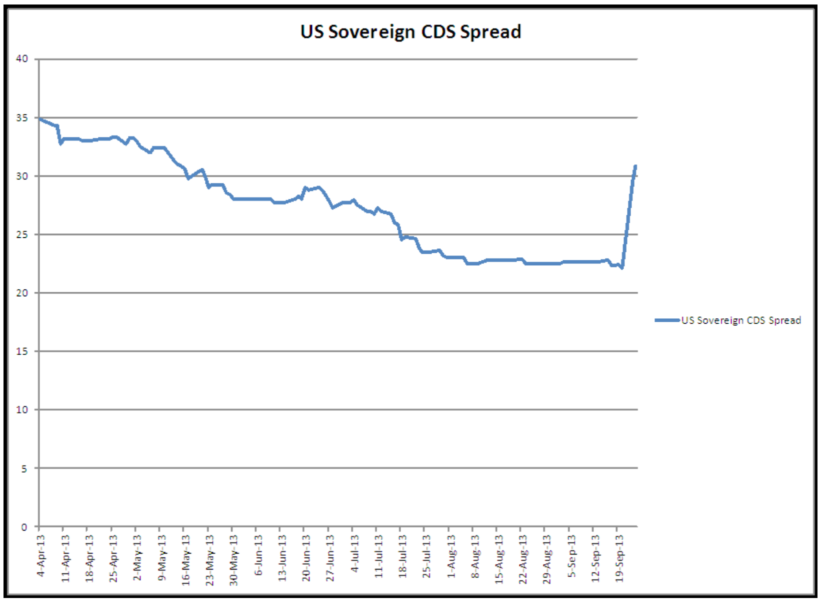


Wednesday, September 25th

- The Commerce Department reports U.S. durable goods (products intended to last for at least three years) orders rose by 0.1% in August—following a decline of 8.1% in July—citing slightly higher demand for homes and automobiles. Gennadiy Goldberg, an economist at TD Securities in New York observed: "It's a fairly tepid (durable goods) report, since a lot of companies have become very cautious. Nobody wants to build significantly large inventories, or place orders for equipment during a time when they think there's a lot of uncertainty in the economy."

- Front Page Headline, Financial Times – **"U.S. Statutory Debt Limit Will Be Reached by October 17th.** In a letter to Congressional leaders, U.S. Treasury Secretary Jack Lew estimated the Treasury would exhaust all of its funding abilities no later than October 17th. At present, the White House is determined not to compromise when negotiating an increase to the $16.7 trillion (U.S.) statutory debt limit. If an agreement is not reached prior to mid-October, Mr. Lew estimates the Treasury will have less than $30 billion (U.S.) to cover expenses—below the $60 billion (U.S.) in outlays it pays on same days—potentially leading to the first default by America on its outstanding debt obligations (U.S. Treasurys). Secretary Lew warned: 'The (statutory) debt limit impasse which occurred in 2011 caused significant harm to the economy and a (sovereign debt) downgrade to the credit rating of the United States. That drawn-out dispute caused business uncertainty to increase, consumer confidence to drop and financial markets to fall. If Congress were to repeat that brinkmanship in 2013, it could inflict even greater harm on the economy. Moreover, if the government should ultimately become unable to pay all of its bills, the results could be catastrophic."

U.S. Sovereign Debt / Credit Default Swap Yield Spread



Source: Markit Economics

Thursday, September 26th

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 5,000 to 305,000 in the week ended September 21st. while continuing claims increased by 35,000 to 2.82 million in the week ended September 14th. Those people who have exhausted their traditional benefits and are now receiving emergency or extended benefits from state or federal programs increased by about 32,500 to 1.35 million in the week ended September 7th.
- Using the latest fiscal and economic data and Economic Action Plan Measures, the Annual Fiscal Sustainability Report of Canada's Parliamentary Budget Officer (PBO)—newly appointed Jean-Denis Frechette—"estimates that Canada's federal finances are sustainable." The federal government's net debt to gross domestic product (GDP) ratio declines over long-term projections, reaching 27.8% in 2021 and a net asset (even) position in in 2044. PBO's projection of net debt suggests federal debt (accumulated deficits) is on track to achieve the government's G20 commitment to a debt-to-GDP ratio of 25% by 2021. PBO estimates that the federal government has fiscal room of 1.3% of GDP (or $24.8 billion CAD) in 2013. This means that if the federal government reduces taxes, increases program spending, or a combination of both by an amount equivalent to 1.3% of GDP in 2013and allows the cost of the measures to grow with nominal GDP over the next 75 years; the net debt to GDP ratio will return to its current level of 37.4% by 2087. The federal fiscal structure has been transformed from unsustainable in 2011 to sustainable in 2013—with substantial fiscal room—largely through spending restraint and reform of the Canada Health Transfer (CHT) escalator. However, the federal fiscal room has transferred the fiscal burden to provincial, territorial, local and aboriginal (PTLA) governments, raising the fiscal gap of that sector under PBO's baseline spending assumptions.''

LONGWAVE group

Friday, September 27th

- Front Page Headline, Bloomberg News – **"Keystone Pipeline Project Faces Nebraska Court Challenge.** In a Nebraska court filing, lawyers representing three property owners contend: 'The Nebraska Legislature (illegally) transferred to Governor Dave Heineman, and through him to Calgary-based pipeline builder Trans Canada Corp., its authority over eminent domain in violation of the State constitution's separation of powers. The Legislature is not empowered to delegate authority to a private company at the expense of its residents.' In a statement, Trans Canada spokesman Grady Semmens noted: 'We don't anticipate this court case will impact the timing of a decision on Keystone XL. Governor Heineman's decision approving the route has not been stayed pending the outcome of the court challenge. It remains valid and there is no legal bar to the State Department moving ahead with its (approval) process."

- The Washington-based National Association of Realtors reports its index of U.S. pending home sales declined by 1.6% in August—following a revised drop of 1.4% in July—citing rising mortgage rates have negatively impacted housing market momentum.

- Front Page Headline, Financial Post – **"U.S. Senate Passes Budget Bill Averting Government Shutdown, but House Remains Divided.** In a 54 – 44 vote, the Democratic controlled U.S. Senate has passed budget legislation aimed at avoiding a federal government shutdown on Tuesday, October 1st. Meanwhile, House Republican leaders are still struggling to determine how they can obtain enough votes from conservative members in order to pass a revised version of the legislation through their chamber. So, it remains unclear whether the U.S. Senate and the Republican controlled House will be able to complete a compromise bill—allowing time for President Barack Obama's signature—before the government must close down."

The U.S. Capitol in Washington, D.C. Source: Getty Images

- Front Page Headline, Washington Post – **"Obama Chides Republicans as Government Shutdown Looms.** Addressing reporters in the White House Press Briefing Room, U.S. President Barack Obama lectured GOP leaders: 'My message to Congress is this: Do not shut down the government. Do not shut down the economy. Pass a budget on time."

	CLOSING LEVELS FOR FRIDAY, September 27th	WEEKLY CHANGE
Dow Jones Industrial Average	15,258.24	– 192.85 points
Spot Gold Bullion	$1,339.20 (U.S.)	+ $6.70 per oz.
S&P / TSX Composite	12,844.08	+ 37.61 points
10 - Year U.S. Treasury Yield	2.62%	– 11 basis points
Canadian Dollar	97.06 cents (U.S.)	– 0.04 cent
U.S. Dollar Index Future	80.27	– 0.16 cent
WTI Crude Oil (October)	$102.87 (U.S.)	– $1.88 per barrel

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