Monday January 13th, 2014

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, January 13th

Front Page Headline, Bloomberg News – "House Unveils $1.01 Trillion (U.S.) Bill to Fund Federal Government. Just days before funding for federal agencies is scheduled to lapse, U.S. House and Senate lawmakers agree to a $1.01 trillion (U.S.) bipartisan bill

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to fund the federal government through the current fiscal year ending September 30th. The legislation was announced by House Appropriations Committee Chairman Hal Rogers (R.Ky) and Senate Appropriations Committee Chairwoman Barbara Mikulski (D.Md). In a joint statement, the lawmakers allowed: 'While not everyone will like everything in this bill, in this divided government a critical bill such as this simply cannot reflect the desires of only one party. We believe this is a good workable measure and it should reach the House floor on January 15th.' In December, lawmakers agreed on the $1.01 trillion (U.S.) spending level as part of a two-year bipartisan budget agreement. The bill announced today would provide funding for individual government agencies and avoid a repetition of the 16-day partial government shutdown of last October."

- The Ministry of Finance in Tokyo reports Japan's current account deficit widened to a record 592.8 billion yen ($5.7 billion U.S.) in November. Junko Nishioka, an economist at the Royal Bank of Scotland in Tokyo commented: "The record current account deficit reflects a lack of nuclear power and a weaker yen – the two dominant factors affecting the economy – which may provide cause for the yen to decline further." At a press conference, Economy Minister Akira Amari warned: "We must take this seriously and solve the underlying causes. If Japan allows its current account balance to remain in deficit, it would have to depend upon foreign investment to finance its budget shortfall."

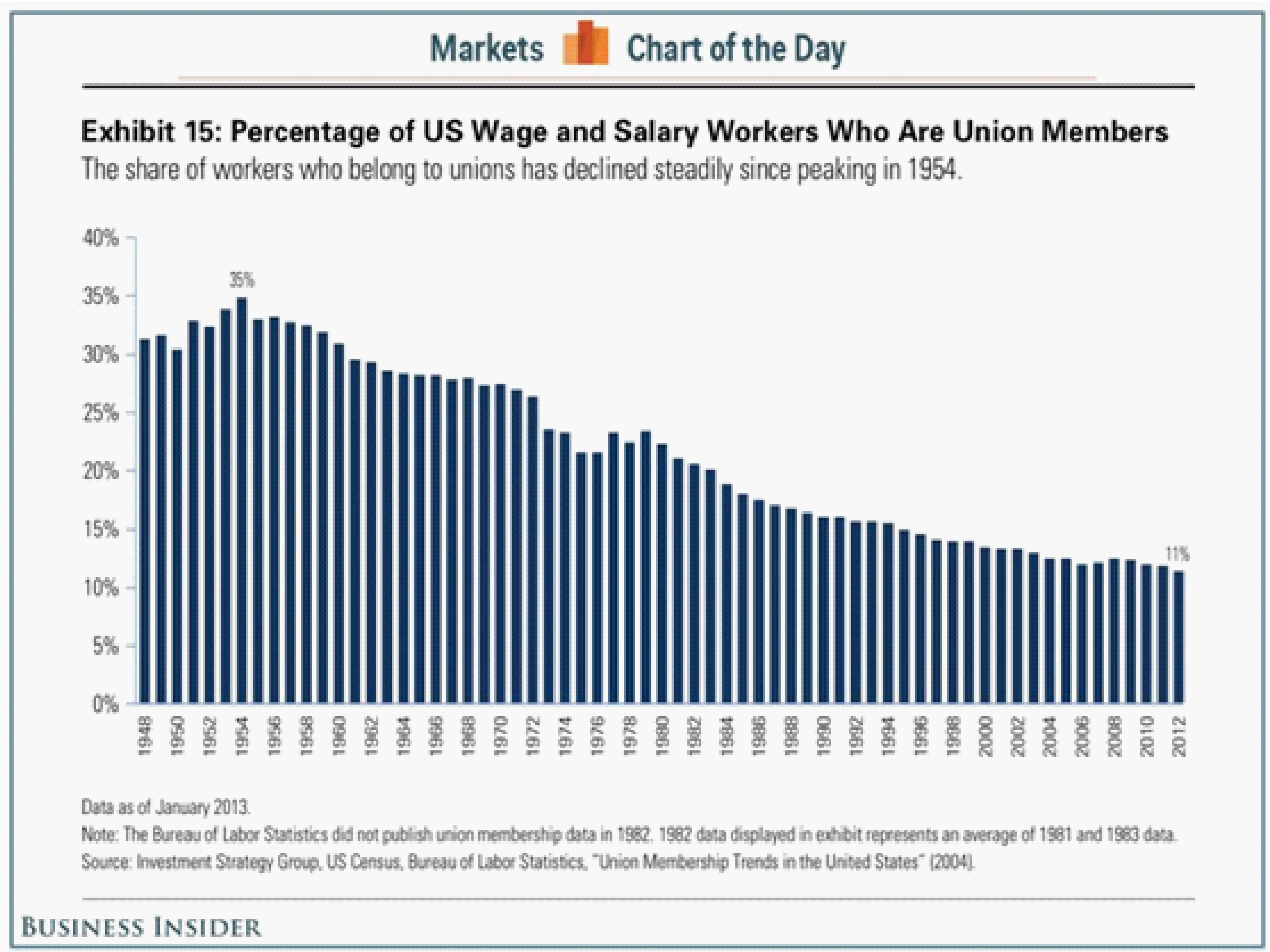
- The Department of the Treasury reports the U.S. Government posted a record budget surplus of $53.2 billion (U.S.) in December, citing higher payroll taxes, as well as higher payments from Fannie Mae and Freddie Mac. The federal deficit totaled $173.6 billion (U.S.) in the first three months of fiscal 2014, compared with a shortfall of $293.3 billion (U.S.) from October through December 2012.

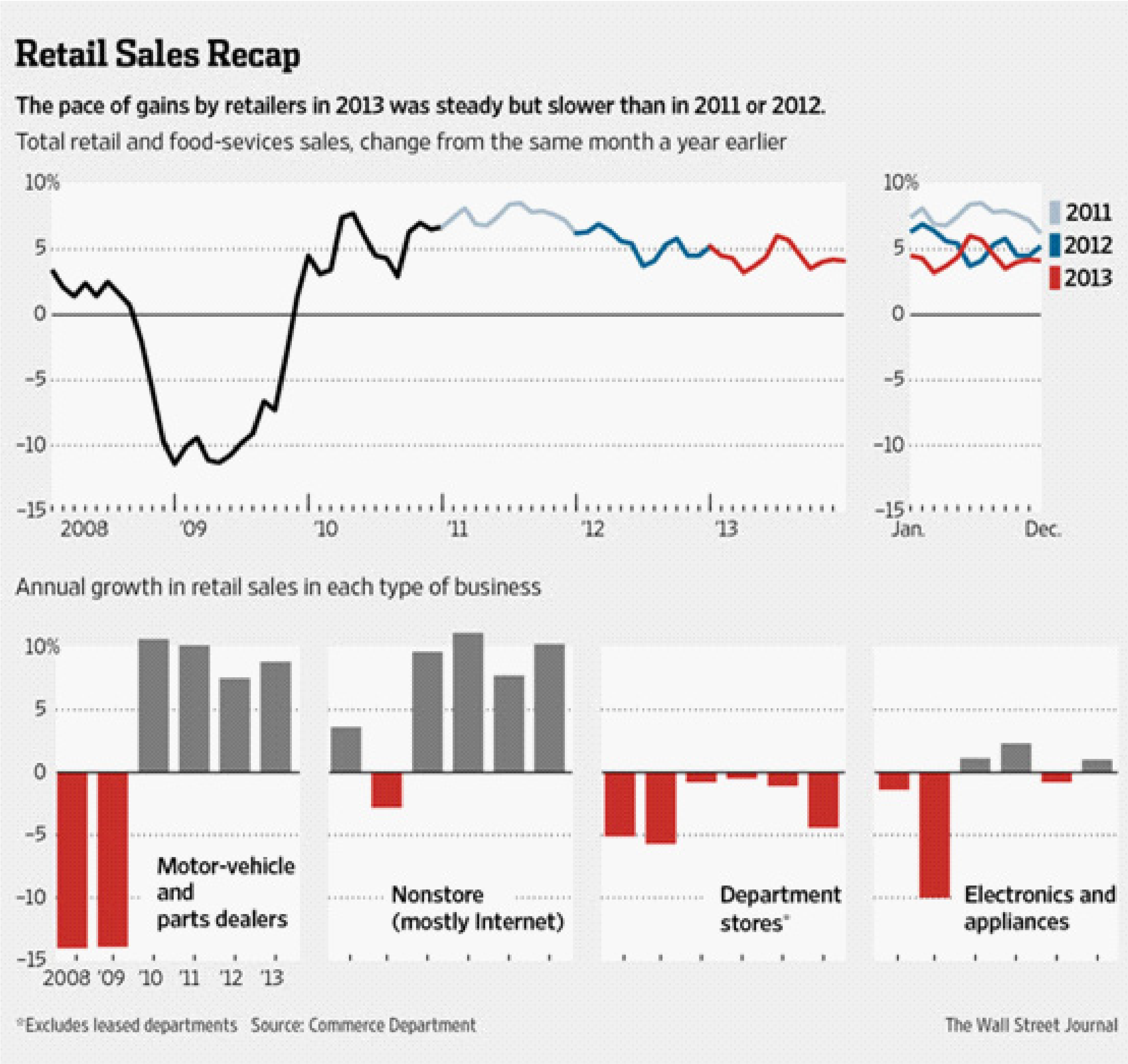
- Front Page Headline, Globe and Mail – "Goldcorp Launches $2.6 Billion (CAD) Hostile Bid for Osisko Mining. The bid, valued at $5.95 (CAD) per share, represents a 15% premium for Osisko shares based upon last Friday's closing price. Quebec-based Osisko owns the Malartic gold mine in that province, a coveted industry asset. In an interview, Goldcorp's CEO Chuck Jeannes stated: 'Our (corporate) strategy has never been about size. Our shareholders understand this offer and think it makes sense. Goldcorp has a history of being disciplined and at this time, I am not willing to pay any higher price.' Joseph Fazzini, an analyst at Dundee Capital Markets, noted: 'Malartic is a world class operation and should command a higher premium. Goldcorp is trying to be opportunistic because such a low offer opens the door for one or more parties to get involved. We wouldn't be surprised to see Goldcorp sweeten its bid over time."

- Front Page Headline, Business Insider – "The Shrinking Role of Unions Keeps Corporate Profit Margins Healthy. In a new report to private wealth clients, Goldman Sachs reports: 'One of the underpinnings of our view on equities over the last several years is that the current level of (corporate profit) margins is sustainable and likely to remain well above the levels seen in the 1970s and the 1980s. Labor market slack and technology improvements will keep wage cost growth contained; deleveraging will limit the impact of higher interest rates and increasing foreign exposure will keep overall taxes and operating costs low. As shown in Exhibit 15 below, union workers have accounted for a declining share of U.S. wage and salary workers. The share of union workers peaked at 35% in 1954 and has (since) declined fairly steadily to a post WW II low of 11%. The shrinking role of unions in the workforce may well have been the initial impetus behind labor's declining share of (the) national revenue, but other forces have contributed. China's entry into the World Trade Organization (WTO) clearly squeezed American manufacturing workers, who in effect were displaced by cheap labor. Moreover, globalization and outsourcing beyond China placed some additional downward pressure on wages and these trends are unlikely to be reversed anytime soon."

TUESDAY, JANUARY 14TH

- The Commerce Department reports U.S. retail sales rose by 0.2% in December. Consumer spending, which accounts for two thirds of America's economic output, is expected to make a big contribution to U.S. gross domestic product (GDP) growth in the last three months of 2013. Economists now expect an annualized GDP growth rate of at least 3% in the 4th. quarter, after registering a strong 4.1% growth rate in the 3rd. quarter. Michael Egeck, president and chief executive officer of apparel retailer Eddie Bauer Holdings – which has more than 300 U.S. stores – observed: 'We didn't see anything like happy days are here again and free spending. Rather, shoppers were considerably more discerning about splurging for winter wear; concerned about quality and inquiring about warranties.'





- Front Page Headline, Financial Post – "Bank of America Will Pay $11.7 Billion (U.S.) in Fannie Mae Loan Settlement. The B of A package was designed to resolve most mortgage disputes with government owned Fannie Mae, after an agreement announced two years ago proved inadequate. According to separate disclosures, Bank of America will make a $3.6 billion (U.S.) cash payment, spend 6.5 billion (U.S.) to buy back residential loans sold to Fannie Mae and pay a $1.3 billion (U.S.) fine for taking too long to assist or foreclose on overdue mortgagors. In this latest effort by Chief Executive Officer Brian Moynihan to cap the damage caused by his predecessor's (Ken Lewis) takeover of Countrywide Financial Corp. and its defective subprime home loans in 2008. Since then, the bank has committed more than $40 billion (U.S.) to cover the costs of refunds and litigation related to faulty mortgages and foreclosures. Much of that sum went to the government owned entities of Fannie Mae and Freddie Mac. Once again, the legacy of incompetence and stupidity of former Bank of America President Ken Lewis (now retired) returns to haunt and plague the B of A relentlessly."

- Front Page Headline, Bloomberg News – "U.S. Senate Fails to Advance Emergency/Extended Benefits Plan for Long-Term Unemployed. The U.S. Senate has failed to move forward a Democratic plan to restore emergency/extended long-term unemployment benefits to 1.3 million Americans which had expired on December 28th. Following a mostly party line 55-45 vote, Senate Majority leader Harry Reid (D.Nev) lamented: 'I am disappointed that we couldn't work something out."

Senate Majority Leader Harry Reid addresses reporters. Source: Bloomberg

- Front Page Headline, Mish's Global Economic Trend Analysis – "France's Collective Depression. Pascal Perrineau, director of the Center for Political Research at Sciences Po (CEVIPOF) raises the spectre of a 'collective depression' in France. For the first time since its inception in 2009, the CEVIPOF economic survey barometer holds an outlook of 'gloom' with a relative majority of 34% and with 75% of French youth believing their chance of financial success is less than their parents. Of the French populace polled, 60% believe that their financial situation will worsen over the next twelve months, an increase of 5 percentage points over January 2013. French union workers were a component of the CEVIPOF barometer, with only 28% having any confidence in their economic outlook; a decline of 7 percentage points over the past year. A hardening of values was uncovered by the barometer in terms of 67% of those citizens polled believe there is too much immigration, while only 35% believe that belonging to the European Union (EU) is a good thing for France; a drop of 17 percentage points since October 2011."

WEDNESDAY, JANUARY 15TH

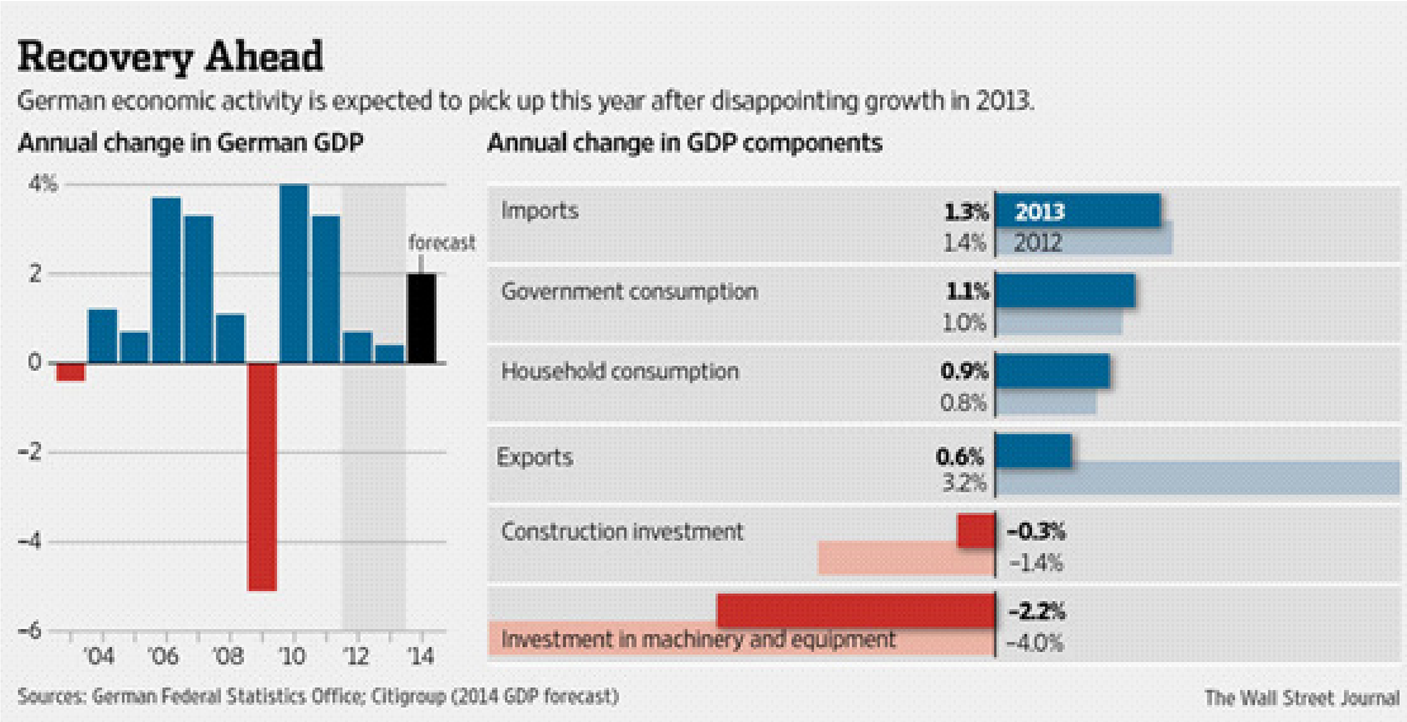
- The Federal Reserve Bank of New York reports its Empire State manufacturing index – which covers New York State, northern New Jersey and southern Connecticut – rose to a reading of 12.5 in January; the highest level since May 2012.

- The Labor Department reports the U.S. producer price index (PPI) rose by 0.4% in December, following a 0.1% decline in November. The 1.2% advance for the calendar year 2013 was the smallest since 2008. Gennadiy Goldberg, a strategist at TD Securities in New York, commented: "Pipeline inflation pressure is still pretty well contained. The lack of inflationary pressures will give the Fed more room to maneuver."

- Front Page Headline, Globe and Mail – "Sears Canada Announces 1,628 Job Layoffs Amid Outsourcing / Restructuring. Sears Canada Inc. is cutting another 1,625 jobs after having reduced its work force last year by almost the same number, as the retailer attempts to bolster its struggling operations. The company announced it will outsource jobs in three call centers to IBM, in a cost-cutting move which will affect 1,345 employees over the next nine months. In addition, Sears revealed it will immediately lay off 283 employees at four logistics centers in Calgary, Montreal, Belleville, Ont. and Vaughan, Ont. In a statement, Chief Executive Officer (CEO) Doug Campbell asserted: 'We are planning for the future of Sears Canada and taking steps now which will allow us to continue serving customers as a viable national retailer."

- Front Page Headline, Financial Times – "IMF Warns of Growing Threat of Deflation. In a speech to the National Press Club in Washington, International Monetary Fund Managing Director Christine Lagarde warned: 'With inflation running below many central banks' targets, we see rising risks of deflation, which could prove disastrous for the (global) economic recovery. If inflation is the genie, then deflation is the ogre that must be fought decisively. Central banks should return to more conventional monetary policies only when robust (economic) growth is firmly rooted. While this (sovereign debt) crisis still lingers, optimism is in the air: the deep freeze is behind us and the horizon looks brighter. My great hope is that 2014 will prove momentous, the year in which the seven weak years, economically speaking, slide into the seven strong years … In the U.S., economic growth is improving, but it will be critical to avoid premature withdrawal of monetary support and to return to an orderly budget process, including by promptly removing the debt ceiling threat."

- The Federal Statistics Office reports Germany's gross domestic product (GDP) expanded by 0.4% in 2013, compared with GDP growth of 0.7% in 2012. Citigroup economist Ebrahim Rahbari commented: "While Germany's annual GDP growth number is weaker than we thought, it isn't indicative for 2014. We expect the German economy to expand by 2% in 2014 and by 1.9% in 2015; exceeding GDP growth in virtually all other euro zone countries, except perhaps for Ireland."

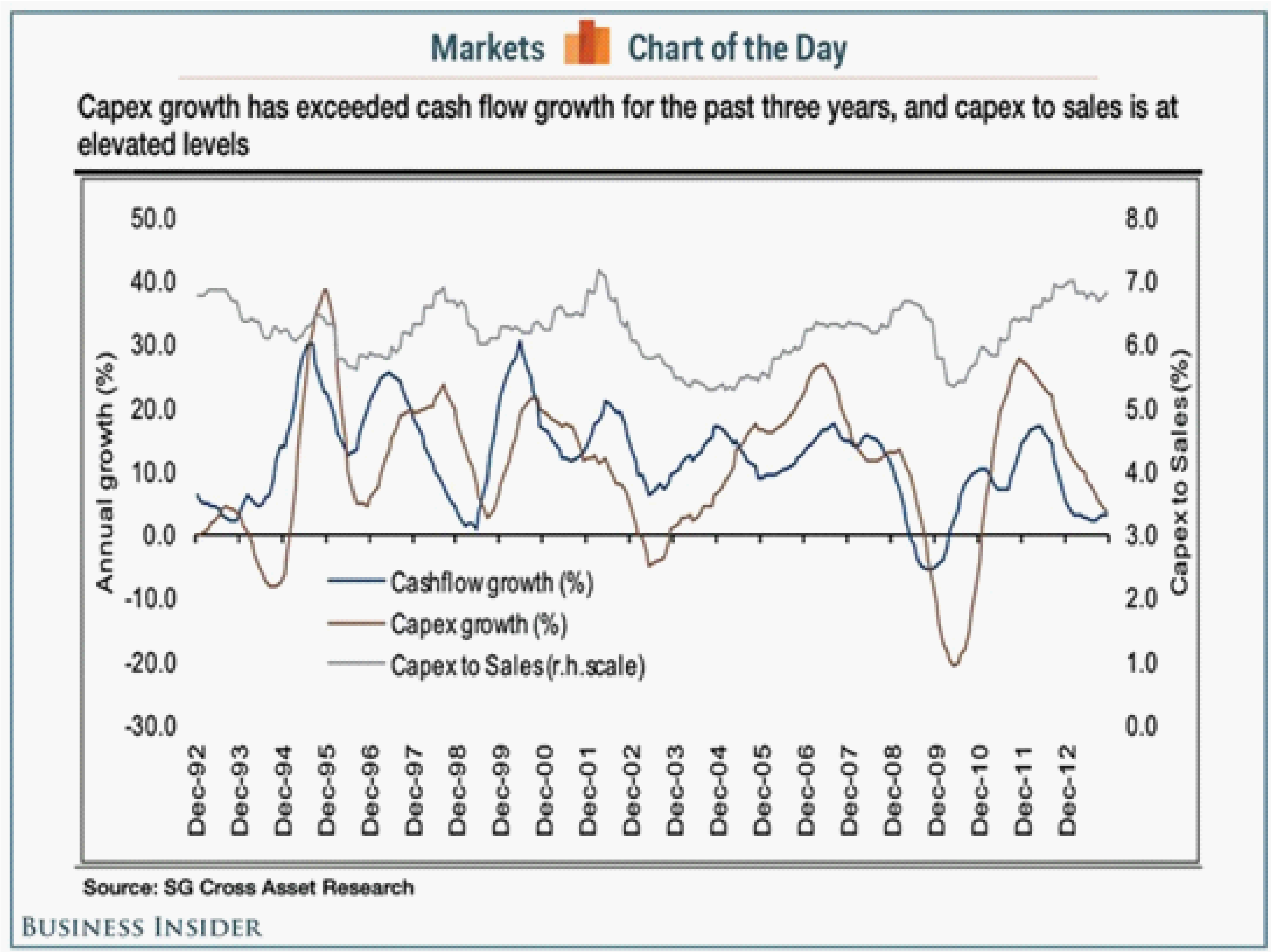


- Front Page Headline, New York Times – "J.C. Penney to Close 33 Stores and Cut 2,000 jobs. In a press release, J.C. Penney announced that the closings and resulting job layoffs would save the company about $65 million (U.S.) a year. One of the oldest American retailers, J.C. Penney has undergone considerable management and investment turmoil within the last few years. In today's announcement, J.C. Penney stated it was closing 'underperforming stores.' However, some analysts and industry experts noted that with 1,100 locations and such extensive difficulties, shedding 33 stores would not be enough to move the needle on the company's performance. Burt Flickinger, a managing director at the Strategic Resource Group – a consumer industry consulting company which specializes in retailing – observed: 'The hole is too deep. This represents a warning shot across the bow of landlords, who should attempt to provide accomodations or concessions, as in common area maintenance charges or lease reductions.'

A Black Friday sale at a J.C. Penney store in Glendale, Cal. Source: Reuters

THURSDAY, JANUARY 16TH

- Front Page Headline, Business Insider – "Are American Corporations Overspending? In a new study, Societe Generale analyst Andrew Lapthorne argues: 'U.S. corporations are not overspending when it comes to capital expenditures. However, relative to sales levels, they may be overspending. Indeed, if we examine the evolution of capital expenditure and cash flow growth, we see that we have already been through a long period of substantial capex growth which has exceeded cash flow growth for some time. Importantly, just as cash flow growth is slowing, so too is capex growth. In the absence of improving demand, capex growth may continue to slide in an effort to preserve those precious high margins and profitability. So, why are U.S. corporations complaining about the lack of investment opportunities and opting largely to engage in share buybacks instead? As has been the case in Japan, we would argue that the problem is not a lack of desire to invest, but (rather) anemic demand reflected in very low sales growth. After all, corporations did increase capital expenditures post the financial crisis, subsequently to be confronted with a lackluster economic recovery. If the demand isn't there why invest? Moreover, with credit abundant there are easier ways to boost asset prices, so why not pursue those instead? The following chart shows overall capex to sales ratios for U.S. corporations – ex-financials. Rather than being depressed, what we see is capex levels versus sales are relatively elevated. If anything, it would appear from this data that capex levels are too high and not too low, as many are saying."



- Front Page Headline, MarketWatch News – "Lew Downplays Weak December Non-Farm Payroll Report. In remarks to the Council on Foreign Relations in Washington, U.S. Treasury Secretary Jack Lew stated: 'The surprisingly small gain in payroll jobs in December is not evidence that the economy is stalling. Only after several months (have passed) will we know what that number means. Economies don't turn on a dime and all of the evidence indicating strength in the economy is still there, so I remain confident that our economy is doing better … While the European economy has improved since 2012, it is not completely out of the woods. I continue to urge the German government to take more steps to help its weaker euro zone partners. Also, other European countries that have budget surpluses should be doing more to stimulate investment and demand. I compliment the German government's decision to spend more on infrastructure and I wish we could make a commitment like that here in America."

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 2,000 to 326,000 in the week ended January 11th. while continuing claims increased by 174,000 to 3.03 million in the week ended January 4th. The number of Americans receiving emergency or extended benefits under federal programs rose by about 63,500 to 1.35 million in the week ended December 28th., the last week of emergency employment compensation. On January 14th. the U.S. Senate failed to advance a Democratic plan to restore those benefits (see Tuesday above), following a dispute over how to cover the cost of the benefits and how long they should continue – for three months or a year – stalled progress on the bill.

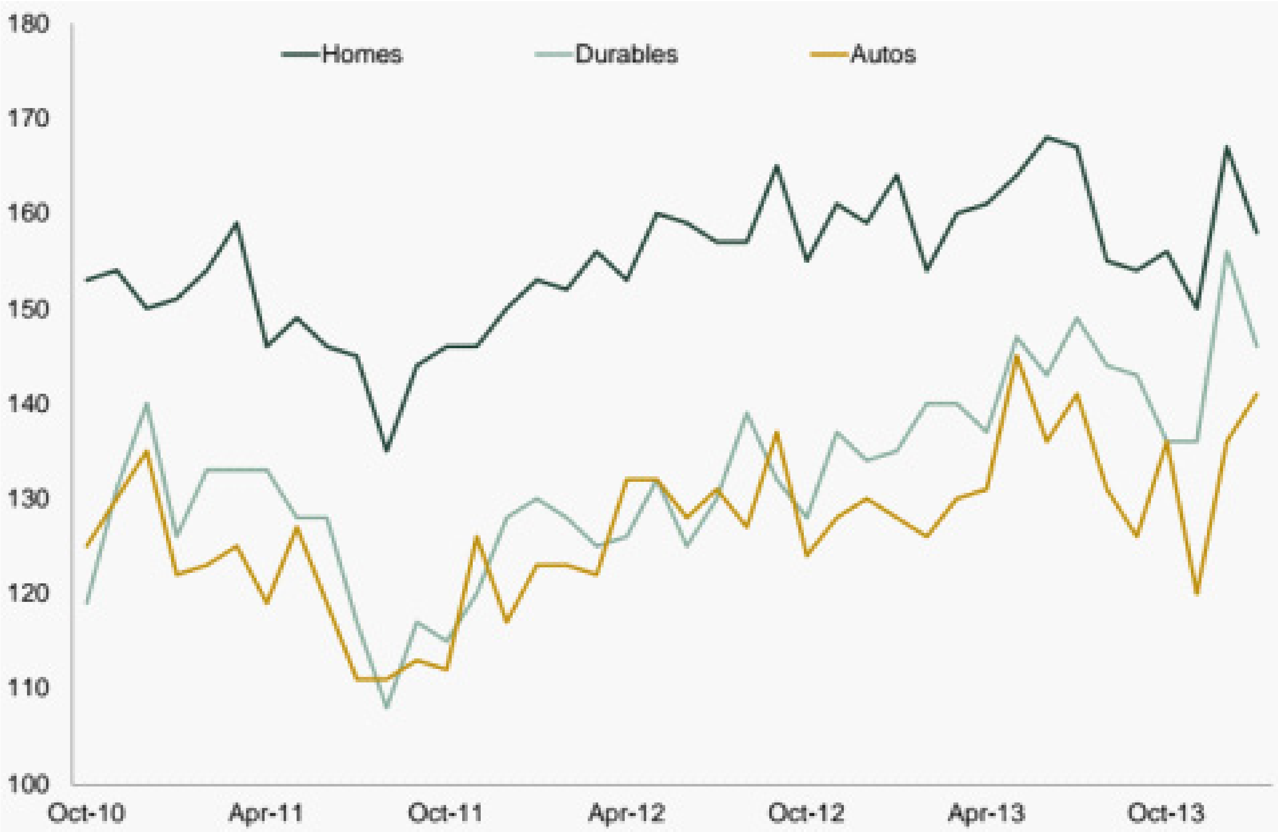
- The National Association of Home Builders (NAHB) / Wells Fargo group reports their confidence index declined slightly to a reading of 56 in January from a level of 57 in December. In a press release, NAHB Chairman Rick Judson observed: "Many (housing) markets continue to improve and this bodes well for future home sales."

FRIDAY, JANUARY 17TH

- The Office for National Statistics (ONS) reports U.K. retail sales rose by 5.3% in December on a year-over-year basis – the highest sales growth since October 2004 – citing solid Christmas sales fueled by big price discounts. Small stores – defined as those employing fewer than 100 people – enjoyed an 8.1% surge in sales, compared with a 2.6% growth rate in larger stores.

- Front Page Headline, Business Insider – "Consumer Confidence Setback Surprises the Street. The Thomson Reuters / University of Michigan group report their U.S. consumer confidence index declined to a reading of 80.4 in January from a level of 82.5 in December. Gennadiy Goldberg, a strategist at TD Securities in New York, observed: 'The details of the University of Michigan survey provide little contrary evidence to the weaker headline report, with consumer purchase expectations for homes and durables slipping during January. Home purchase expectations fell to a reading of 158 from 167 in December. The January decline in durable goods purchase expectations may simply have been a retracement from last month's cycle high reading of 156, with expectations now slipping to 146. However, auto purchase expectations continued to recover, rising to a reading of 141 in January from a level of 136 the previous month." (See chart).

- Front Page Headline, Reuters – "Deutsche Bank to Withdraw from Daily Gold Price Setting. Frankfurt-based Deutsche Bank announces it will withdraw from the twice-daily routine of gold and silver benchmark price setting, as European regulators investigate suspected manipulation of precious metals prices by banks. Germany's largest bank and some of its rivals are taking a battering of criticism over a series of other scandals and inquiries regarding manipulation of interest rates and foreign exchange rates. On Wednesday, (informed) sources told Reuters that global investigations into alleged currency market manipulation had intensified, as U.S. regulators descended upon Citigroup's London offices and Deutsche Bank suspended several currency traders in New York. Deutsche Bank is one of five banks involved in the twice-daily global gold price setting process. In a statement to the media, the bank confirmed it: 'is withdrawing (from) its participation in the gold and silver benchmark setting process following the significant scaling back of our commodities business, but we remain fully committed to our precious metals business."



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CLOSING LEVELS FOR FRIDAY, JANUARY 17TH.		WEEKLY CHANGE
Dow Jones Industrial Average	16,458.56	+ 21.51 points
Spot Gold Bullion	$1,251.90 (U.S.)	+ $5.00 per oz.
S&P / TSX Composite	13,888.21	+ 140.69 points
10-Year U.S. Treasury Yield	2.82%	– 4 basis points
Canadian Dollar	91.11 cents (U.S.)	– 0.62 cent
U.S. Dollar Index Future	81.181	+ 0.556 cent
WTI Crude Oil Futures	$94.37 (U.S.)	+ $1.65 per barrel

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