

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

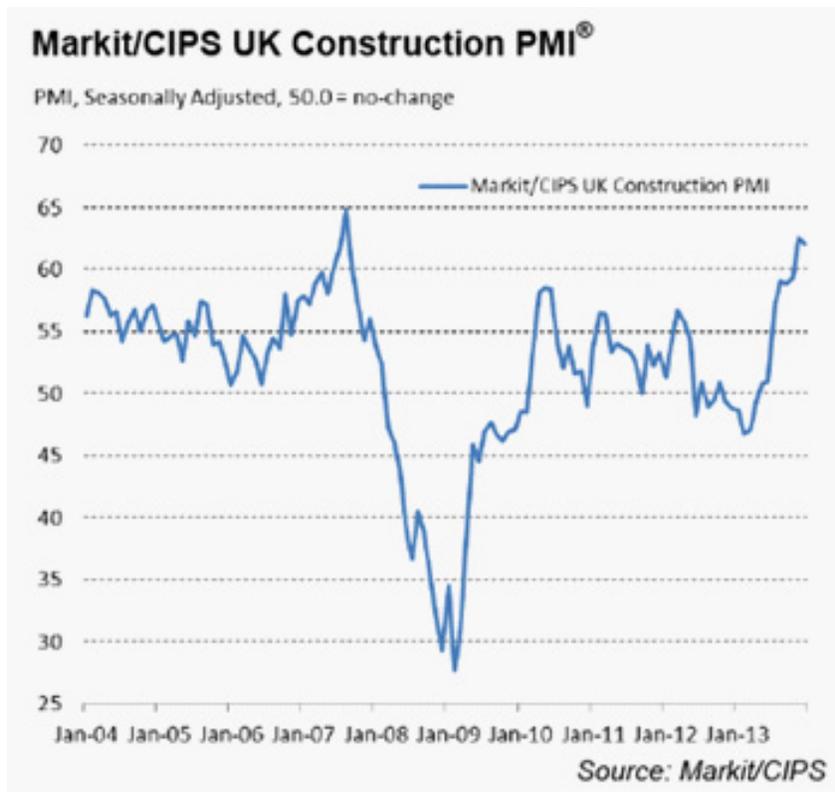


Monday, January 6th

The Commerce Department reports U.S. factory orders rose by 1.8% in November, following an upwardly revised decline of 0.5% in October.

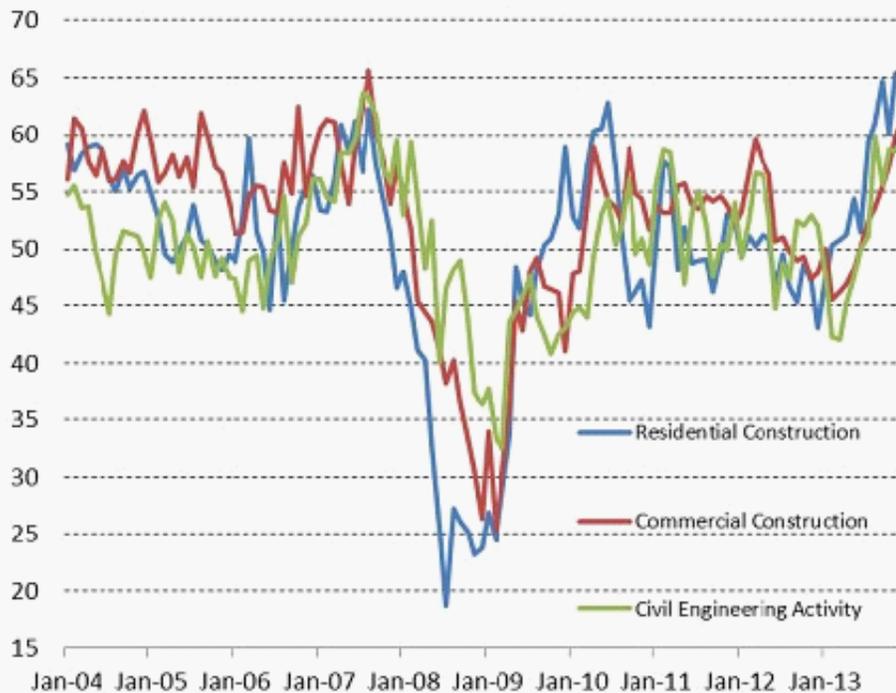
MONDAY, JANUARY 6TH

- The Institute for Supply Management (ISM) reports its U.S. services index declined to a reading of 53 in December from a level of 53.9 in November, as the new orders component fell by 7 points to a reading of 49.4, the first contraction since July 2009.
- Front Page Headline, Daily Telegraph U.K. – “Building Boom Broadens as Commercial Activity Accelerates. The Markit/CIPS group report their U.K. construction Purchasing Managers’ Index (PMI) declined slightly to a reading of 62.1 in December, following a 4-year high level of 62.6 in November.



UK Construction PMI[®] by Category of Activity

PMI, Seasonally Adjusted, 50.0 = no-change



The report stated: ‘Construction companies noted that improving business conditions and greater confidence in the economic outlook had boosted spending among clients during December.’ However, housing remains the fastest growing sector of the three construction areas, as house builders continue to ride the property boom generated by the government’s Help To Buy program.

Tim Moore, senior economist at Markit Economics, commented: ‘The Latest PMI survey highlights that construction companies enter 2014 with the wind in their sails. Most encouragingly, the improving U.K. economic outlook is helping to boost private sector spending patterns, meaning that the construction industry recovery has begun to broaden out from housing demand and infrastructure projects to include strong growth in commercial building work.’

- Front Page Headline, Wall Street Journal – “Janet Yellen Confirmed as Fed Chair. The 67-year old Ms. Yellen, currently the Fed’s Vice Chairwoman of the Board of Governors, will become the first woman to lead the central bank in its 100-year history, following a 56-26 Senate confirmation vote and will assume the office on February 1st.”



- Front Page Headline, Globe and Mail – “Canada’s Housing Market Finishes 2013 on Relatively Strong Note. Prior to the Canadian Real Estate Association’s (CREA) monthly report, a few major Canadian cities have reported year-over-year sales gains for December, as well as substantial increases in average selling prices. The Toronto Real Estate Board reported that existing home sales in the Greater Metro area were almost 14% higher than a year ago. The average price of homes that sold through the Multiple Listing Service (MLS) during December was \$520,398 (CAD), up by 8.9% from the average selling price in December 2012. The Calgary area experienced an 8% gain

in year-over-year sales in December. The benchmark price of a single family home in Calgary was \$472,200 (CAD), up 8.6% from a year earlier. Vancouver’s housing market registered a 71% year-over-year gain in sales in December, 8.1% higher than the 10-year average for that month. The MLS Home Price Index benchmark for all types of properties in Greater Vancouver was \$603,400 (CAD), up 2.1% from a year ago.”

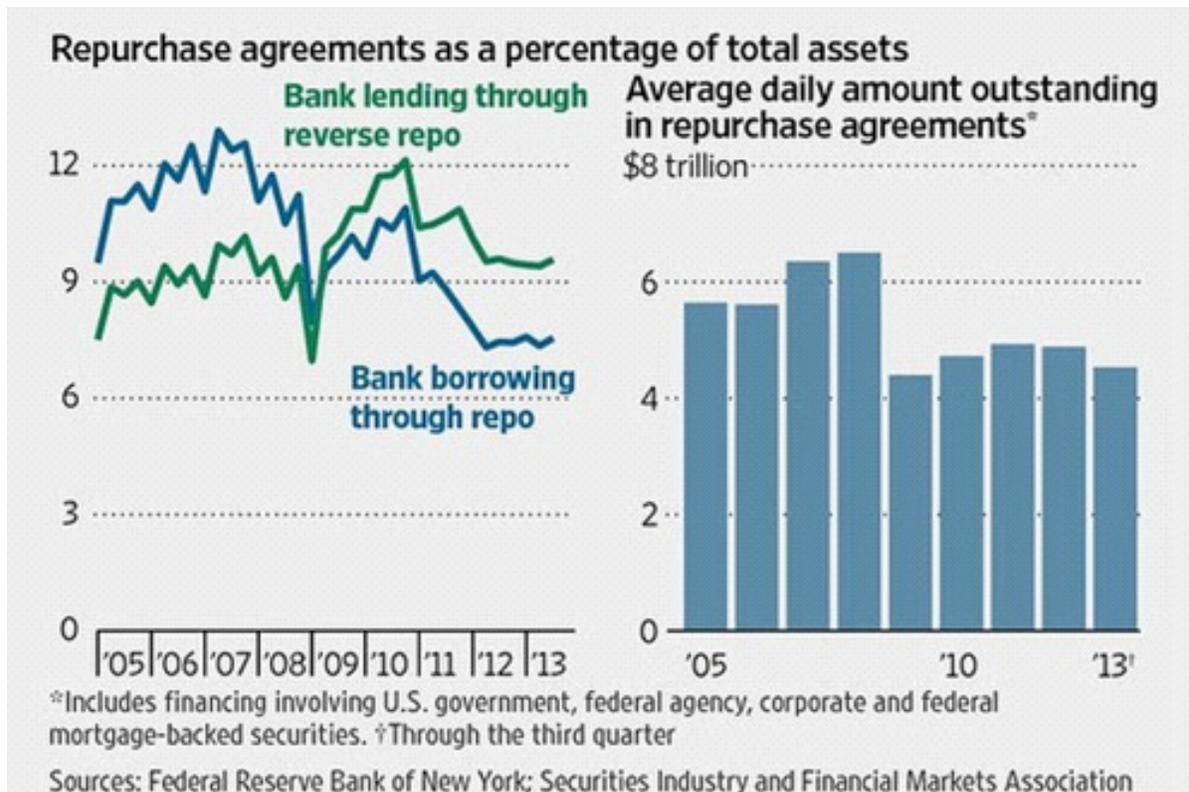
- Front Page Headline, Wall Street Journal – “Five Regulatory Challenges Yellen Will Encounter as Incoming Chairwoman of the Fed. While Janet Yellen will have her hands full unwinding the central bank’s economic stimulus programs, that represents only the beginning of her new challenges. As regulator of the largest U.S. financial institutions, the Fed also has an host of regulatory issues on its agenda.

1. **Short Term Funding:** For years Fed officials have worried about the risks posed by U.S. financial firms reliant upon short term loans. The markets for repurchase agreements, securities lending and other forms of short term funding froze in 2008, causing great anguish for both Wall Street and Main Street. Since then, banks have lessened somewhat their reliance upon such funding. However, these markets still collectively measure in the trillions of dollars. Ms. Yellen and other Fed officials have stated that new rules to reduce short term funding are on the Fed’s agenda.

2. **Big Banks:** Last July, the Fed and other banking regulators required banks to hold minimum levels of capital to compensate for every asset on their balance sheets, the first in a series of planned steps to address concerns that the largest Wall Street firms are still too risky. Ms. Yellen will chair the Fed Board of Governors to consider the next steps, including a Fed estimate of an additional \$200 billion (U.S.) capital surcharge for large banks.

3. **Too Big To Fail:** The Fed is also working with other regulators on a plan for avoiding taxpayer bailouts of a large firm that can’t be dismantled through regular bankruptcy proceedings. A key component is a Fed proposal under review that would require large bank holding companies to hold minimum amounts of long term debt, which could be used to recapitalize a failing firm by turning the debt holders into equity owners of a new company.

4. **Insurance Rules:** The 2010 Dodd-Frank financial overhaul designated the Fed as the primary regulator for many large insurance companies, including those which own banks or, that the Fed and other agencies deem ‘systemically important’ to the nation’s financial stability. Also, the Fed must determine the capital requirements for these insurers, which is a big undertaking for an agency that has traditionally focused on banking.



5. **Foreign Banks:** In December 2012, the Fed proposed to expand its oversight of foreign banks with American subsidiaries, requiring them to maintain stronger capital positions in the U.S. Ms. Yellen's Fed Board of Governors will have to decide how to proceed with this rule following extensive objections from foreign banks and policymakers."

TUESDAY, JANUARY 7TH

- The Commerce Department reports the U.S. trade deficit declined to a seasonally adjusted \$34.3 billion (U.S.) in November from a revised \$39.3 billion (U.S.) in October. Exports rose by 0.9% to \$194.9 billion (U.S.) – a record high – as foreign demand increased for American automobiles, petroleum and industrial equipment and supplies.
- Front Page Headline, Bloomberg News – “JP Morgan to Pay \$1.7 billion (U.S.) to Madoff Victims. New York-based JP Morgan Chase has agreed to pay \$1.7 billion (U.S.) to resolve Justice Department charges that ‘it not only failed to maintain an effective money laundering program, but also failed to file a suspicious activity report, thereby, facilitating Bernard Madoff’s Ponzi scheme.’ Accordingly, JP Morgan Chase has entered into a deferred prosecution agreement with the office of Preet Bharara, the U.S. attorney in Manhattan, acknowledging lapses in oversight related to a bank account Madoff used to fund his multi-billion dollar fraud. JP Morgan also agreed to the filing of a two-count criminal information accord in Manhattan federal court. As part of the deferred prosecution agreement, the bank agreed to cooperate fully with the U.S. Justice Department in its investigation for a period of two years. No individuals were charged as part of the agreement.”

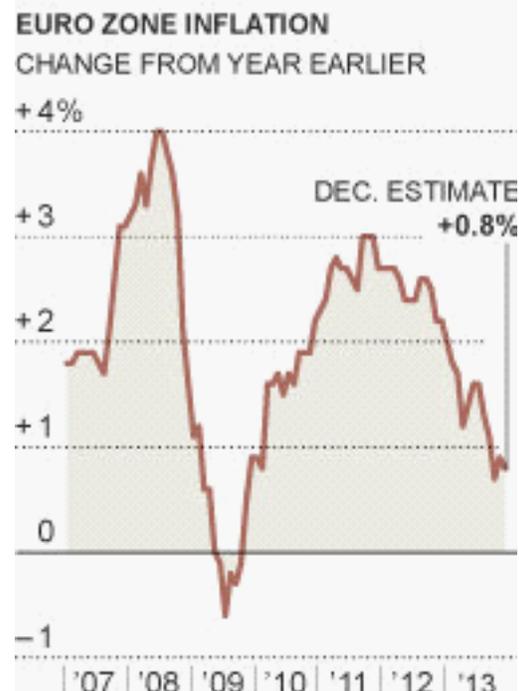


- Front Page Headline, Globe and Mail – “Canada’s Trade Deficit Raises Economic Growth Concerns. Statistics Canada reports stagnant exports of Canadian products contributed to a \$940 million (CAD) trade deficit in November, the 23rd. consecutive

month in which imports have surpassed exports. In a research note to clients, Bank of Nova Scotia economists Derek Holt and Dov Zigler concluded: ‘The export slump isn’t just about pipelines, automobiles, competitiveness or U.S. industrial demand; rather it seems to be fairly broadly based across the export economy.’ For a time, the problem was obscured by strong Canadian exports of oil and other commodities. Today however, with the U.S. approaching energy self-sufficiency, Canadian oil and gas exports are also suffering. David Madani, an economist at Capital Economics noted: ‘It may be some time yet before Canada’s exports support more meaningful overall economic growth.’”

- Eurostat reports the inflation rate for the euro zone rose by 0.8% in December on a year-over-year basis, well below the European Central Bank’s (ECB) target rate of just below 2%. The situation now, in which the rate of inflation is falling, is known as disinflation. If the inflation trend continues in this direction, Europe could face outright deflation; an economic condition in which prices actually decline across the board.

Ebbing Price Pressure
Inflation in the euro zone fell in December to 0.8 percent, well below the European Central Bank’s target of just under 2 percent.



- Front Page Headline, Financial Post – “Sweeping New York Fraud Case Targets Thousands of Retired Police and Fire Officials. In announcing a sweeping fraud case involving scores of retired police officers, as well as former firefighters and jail guards, New York prosecutors stated all were illegally receiving thousands of dollars in federal disability benefits. Manhattan District Attorney Cyrus Vance Jr. remarked: ‘Four ringleaders coached the former workers about how to feign depression and other psychiatric problems, which enabled them to obtain retirement payouts as high as \$500,000 (U.S.) over many years. The ring leaders made tens of thousands of dollars in secret kickbacks.’ Assistant Manhattan District Attorney Christopher Santora related to a judge: ‘The retirees were taught how to fail memory tests and how to act like a person suffering from depression, or post-traumatic stress disorder. If they were claiming to have been traumatized by their 9/11 experience, they were instructed to say that they were afraid of airplanes or tall buildings.’ The four ringleaders – retired police officer Joseph Esposito, 64; John Minerva, 61, a disability consultant with the detective’s union; lawyer Raymond LaVallee, 83, and benefits consultant Thomas Hale, 89, – sat stolidly as they pleaded not guilty to high-level grand larceny charges; then were released on bail.”

WEDNESDAY, JANUARY 8TH

- The Berlin-based Economy Ministry reports German factory orders, adjusted for seasonal swings and inflation, rose by 2.1% in November. Stefan Muetze, an economist at Helaba in Frankfurt, commented: “Signs are the German economy will expand strongly in the first half of 2014. That’s good for the entire euro area and will support the region’s (economic) recovery this year.” Separately, Luxembourg-based Eurostat reported euro zone retail sales rose by 1.4% in November, however the region’s unemployment rate remained unchanged at 12.1%.
- The Roseland, New Jersey-based ADP Research Institute reports U.S. private sector companies added 238,000 workers to their payrolls in December, following an upwardly revised gain of 229,000 in November. In a research note, Mark Zandi, an economist at Moody’s Analytics – which compiles the payroll statistics with ADP – in West Chester, Pennsylvania, stated: “The ADP job gains are broadly based across (various) industries, most notably in construction and manufacturing. It would appear that businesses are growing more confident (about the economic outlook) and are increasing their hiring.”

- Front Page Headline, Globe and Mail – “New Brunswick Train Derailment Fire Renews Debate of Oil-By-Rail’s Dangers. A fiery derailment in New Brunswick Tuesday night was the third time a crude-laden train has caught fire in recent weeks. Canadian National Railway disclosed that three of the tank cars that derailed near Placer Rock, New Brunswick were loaded at a terminal in southwestern Manitoba. That terminal location raises the question of whether some of the crude oil originated in the Bakken region of North Dakota. At a press briefing, Canadian National spokesman Jim Feeny postulated: ‘The focus of the investigation will be what caused the sudden failure of the wheel, or wheel and axel combination and when did it occur.’”



Derailed tank cars burn near Plaster Rock, N.B.
Source: Canadian Press

THURSDAY, JANUARY 9TH

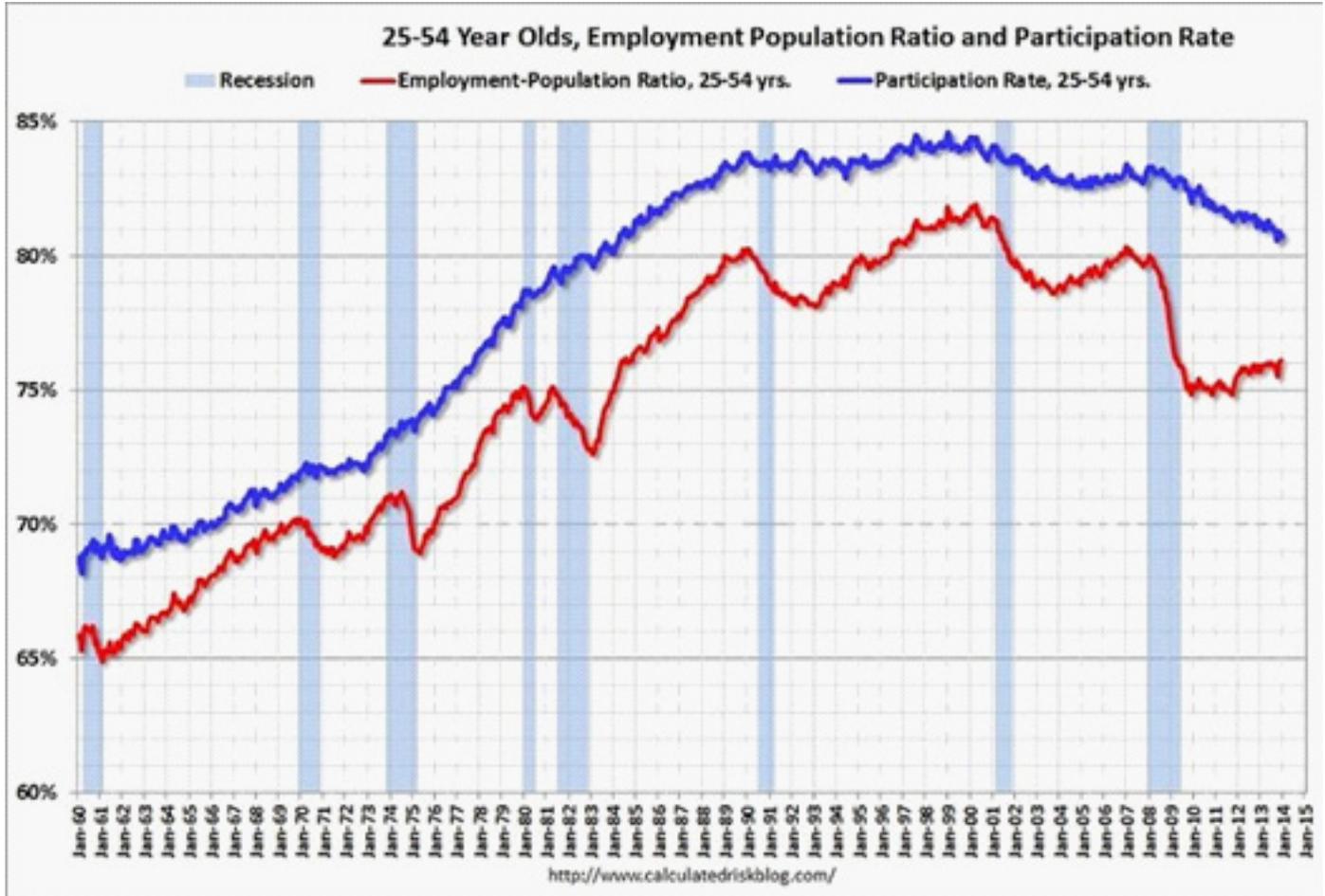
- Alcoa Inc. has agreed to pay \$384 million (U.S.) in fines to settle charges laid under the Foreign Corrupt Practices Act by the U.S. Securities and Exchange Commission (SEC) and the U.S. Department of Justice (DOJ) citing: “Alcoa’s subsidiaries had repeatedly bribed Bahraini officials to an amount in excess of \$110 million (U.S.) in order to retain the right to supply a government-operated aluminum plant.” The U.S. regulatory settlement is with Alcoa World Alumina LLC, part of a joint venture with Australia’s Alumina Limited – Alcoa owns 60% of the joint venture – and includes payment of \$223 million (U.S.) to the DOJ and \$161 million (U.S.) to the SEC over four years.
- Front Page Headline, Globe and Mail – “Victory Premature for Europe’s Economic Recovery: Draghi. At a Rome press conference, European Central Bank (ECB) President Mario Draghi acknowledged: ‘It is premature to declare victory in the battle to end the (European debt) crisis. The (economic) recovery is there, but it is weak and modest. So, I expect that European administered interest rates – currently at 0.25% – will remain at record low levels for some time. I am also concerned about disinflation (see Tuesday above) and the euro zone’s 12.1% unemployment rate.’”

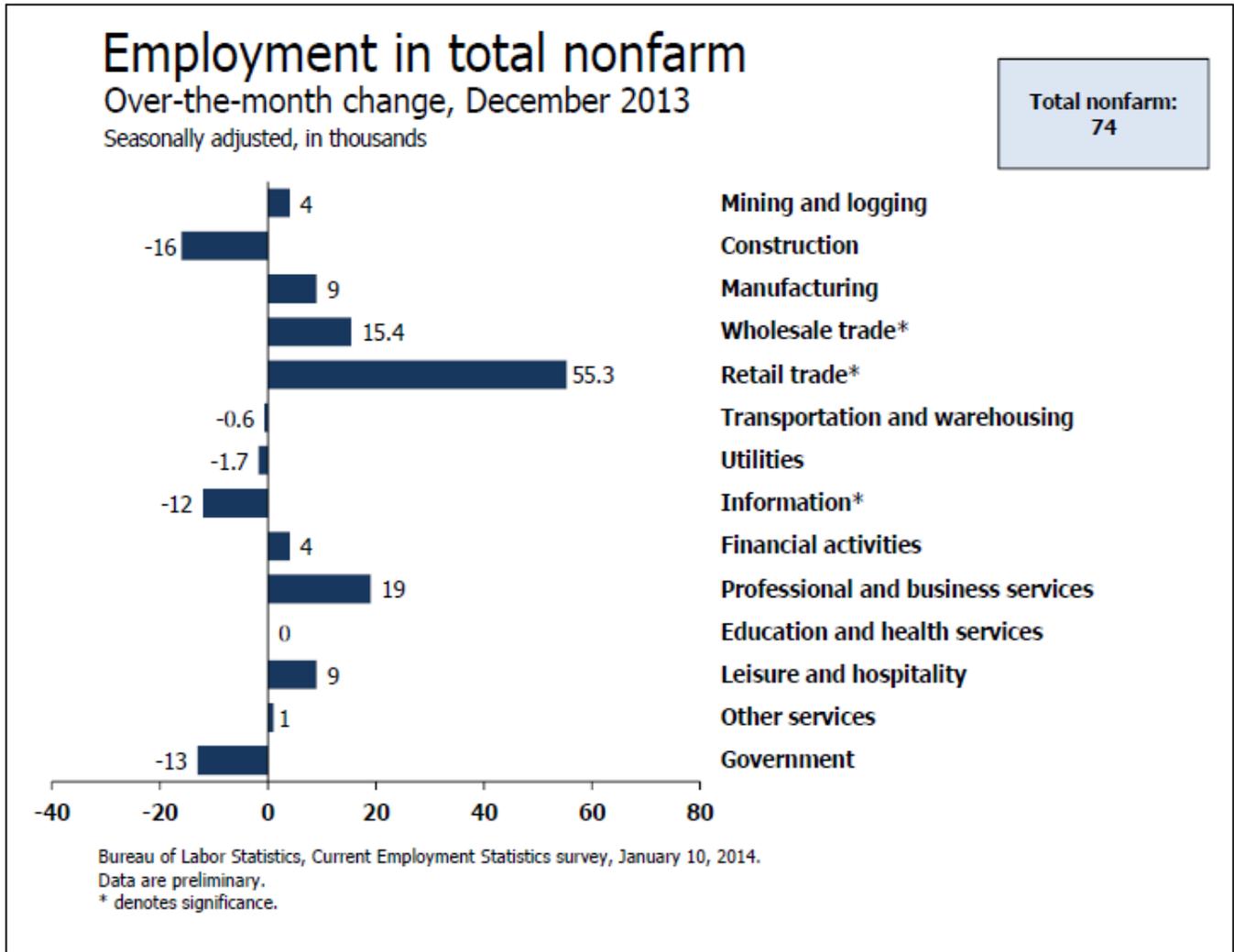
- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 15,000 to 330,000 in the week ended January 4th. while continuing claims increased by 50,000 to 2.87 million in the week ended December 28th.

FRIDAY, JANUARY 10TH

- The Labor Department reports U.S. non-farm payrolls increased by 74,000 in December, the slowest pace since January 2011 – citing the partial effect of severe winter weather – while the official unemployment rate declined to 6.7%, the lowest level since October 2008. Michael Feroli, an economist at JP Morgan Chase in New York, commented: “Today’s jobs data is a reminder that any improvement (in hiring) is not going to be a straight line. The weather probably did play a big role, because even if you exclude its effect, the numbers still look pretty soft.” Meanwhile, the U.S. labor force participation rate declined slightly to 62.8% in December from 63% in November. See the accompanying charts (below and on the following page).

- Statistics Canada reports the country shed 45,900 positions in December, while the official unemployment rate climbed to 7.2% from 6.9% in November. Benoit Durocher, an economist at Desjardins Securities in Montreal, commented: “While the December numbers were disappointing – it’s just one month – because when you look at the trend, it’s slow growth in line with the Canadian economy.”
- Front Page Headline, Mish’s Global Economic Trend Analysis – “Greece’s Industrial Production Declines for Fifth Consecutive Month. Macropolis reports those expecting an uptick in Greek GDP received some sobering news this past week. According to ELSTAT, Greece’s seasonally adjusted unemployment rate reached a new high of 27.8% in October from an upwardly revised 27.7% in September. Women lead the way in the unemployment stakes with 32.1% lacking jobs compared to 27.4% for men. Separately, ELSTAT reported Greece’s industrial production declined by 4.8% in November – following a drop of 3.9% in October – on a year-over-year basis. Meanwhile, Prime Minister





Samaras' majority of 26 seats in parliament – following last year's election – has dwindled to just three seats, which raises the risk of political instability that could hamper, not only any economic recovery, but also, Greece's ability to meet the domestic targets set by its international financial bailout agreement."

- Front Page Headline, Daily Telegraph U.K. – "U.S. President Obama Nominates Stanley Fischer as Fed Vice Chairman. Mr. Fischer, 70, is the former Governor of the Bank of Israel and is regarded as one of the world's most prominent monetary economists. In a statement to the press, President Obama affirmed: 'Stanley Fischer brings decades of leadership and expertise from various roles, including serving at the International Monetary Fund and the Bank of Israel. He is widely acknowledged as one of the world's leading and most experienced economic policy minds and I'm grateful that he has agreed to assume this new role and I am confident that he and Janet Yellen will make a great team.'"



CLOSING LEVELS FOR FRIDAY JANUARY 10TH.		WEEKLY CHANGE
Dow Jones Industrial Average	16,437.05	– 32.49 points
Spot Gold Bullion	\$1,246.90 (U.S.)	+ \$8.30 per oz.
S&P / TSX Composite	13,747.52	+ 198.66 points
10-Year U.S. Treasury Yield	2.86%	– 13 basis points
Canadian Dollar	91.73 cents (U.S.)	– 2.26 cents
U.S. Dollar Index Future	80.625	– 0.243 cent
WTI Crude Oil Futures	\$92.72 (U.S.)	– \$1.24 per barrel

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