

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



### Monday, December 15th

The Federal Reserve reports U.S. industrial production rose by 1.3% in November, following a slight increase of 0.1% in October, since the output of consumer goods – including automobiles, electronics and energy – surged by the most in 16 years. Laura

#### MONDAY, DECEMBER 15TH

Rosner, an economist at BNP Paribas in New York, noted: “With consumer demand and business demand strengthening together, the economy becomes self-reinforcing. The gain in industrial production should provide momentum for GDP growth going into 2015.”

- Front Page Headline, Bloomberg News – “To Stem the Ruble from Tumbling to Rubble, the Central Bank of Russia Raises Key Lending Rate to 17%. In a statement, the central bank explained: ‘This interest rate decision is aimed at limiting substantially increased ruble depreciation risks, as well as inflation risks.’ This marks the sixth time during 2014 that Russia’s central bank has raised interest rates, after more than \$80 billion (U.S.) was expended from its currency reserves which failed to prevent a 49% decline in the ruble; making it the world’s worst performing currency this year.”
- Statistics Canada reports Canadians’ household debt – mortgages, credit card balances and bank lines of credit – increased to a record 162.6% of disposable income during the 3rd. quarter, due in part to major Statscan revisions to previous record levels. In a research note, Bank of Montreal economist Benjamin Reitzes observed: “Given the record household debt ratio, there’s nothing here to change the Bank of Canada’s view that high household debt is a risk to financial stability. However, the downward revision to the debt figures and continued strength in net worth should prevent concerns from worsening.”

- Front Page Headline, Globe and Mail – “An Emboldened Abe to Push Harder for Economic Reform. In an op-ed, journalist Brian Milner writes: ‘Having received an increased coalition majority government in the weekend snap election, Japanese Prime Minister Shinzo Abe should find it easier to pass contentious legislation, buy more time to reverse the economy’s stumbling trend and pursue his reformist ambitions.’”
- Front Page Headline, Washington Post – “Following Prolonged Debate, the \$1.1 Trillion (U.S.) Spending Bill Clears U.S. Senate. The bill’s passing in a rare weekend session eliminates the threat of a government shutdown and followed days of acrimonious debate on Capitol Hill over the omnibus agreement.”

#### TUESDAY, DECEMBER 16TH

- The Commerce Department reports U.S. housing starts declined by 1.6% to an annualized pace of 1.03 million units in November from an upwardly revised rate of 1.05 million units in October; led by a steep drop throughout the southern states. Separately, the Commerce Department reported U.S. building permits declined by 5.2% to an annualized pace of 1.04 million from an October rate of 1.09 million permits.
- Markit Economics reports its German purchasing managers’ index (PMI) for the manufacturing and services sectors declined to a reading of 51.4 in December from a level of 51.7 in November. Oliver Kolodseike, an economist at London-based Markit, observed: ‘The German PMI data are consistent with only marginal gross domestic product (GDP) growth in the 4th. quarter. The

possibility of a renewed economic downturn at the beginning of next year is clearly becoming increasingly likely, especially if the survey data continue to disappoint.”



An employee bolts a heat shield to the undercarriage of an Audi AG car at the carmaker’s factory in Neckarsulm, Germany. Source: Bloomberg News

- The London-based Office for National Statistics reports 0.3% of disinflation pressures in November reduced the U.K. annual inflation rate to 1% – the lowest level in 12 years – from 1.3% in October, citing declining oil prices, lower transport costs and lower food prices. James Knightly, an economist at ING Bank in London, commented: ‘The inflation rate gives the Bank of England plenty of room to keep monetary policy ultra-loose. We had been thinking that the BOE might hike interest rates soon after the May general election, however, given the lack of inflationary pressures, a 3rd. quarter move is more likely.’

WEDNESDAY, DECEMBER 17TH

- The Labor Department reports the U.S. consumer price index (CPI) declined by 0.3% in November, the most since December 2008, led by a continuing plunge in fuel costs. Stuart Hoffman, chief economist at PNC Financial Services Group in Pittsburgh, observed: “The American consumer is receiving a well-deserved break. We’re seeing a little more wage and employment growth, a higher level of consumer confidence and finally a price break at the gas pump. It all adds up to what should be a very strong holiday season for economic activity.” .”
- In a statement following its monthly monetary policy meeting, the Federal Open Market Committee (FOMC) announced it was leaving the U.S. Federal Funds Rate unchanged in a range of 0% to 0.25% because it “can afford to be patient in beginning to normalize the focus of monetary policy.” In a press conference following the statement, Federal Reserve Chair Janet Yellen elaborated: “While the FOMC is unlikely to begin the normalization process for at least the next couple of monetary policy meetings, the timing for the initial increase in the Fed Funds target, as well as the path for the target thereafter, are contingent upon

economic conditions.”



- Front Page Headline, Business Insider – “Russia’s Trading Partners Possess Limited Exposure to Ruble. In a note to clients, Andrew Kenningham, an analyst at Capital Economics, has put Russia’s economy into a more global perspective, writing: ‘Both trade and financial links between Russia and the rest of the world remain too small for Russia’s plight to have major global implications.’ Kenningham notes that Russia accounts for just 2.7% of world GDP and the country’s share of world GDP is about 1.7%. While Russia is a big trading partner for countries like Poland and the Czech Republic, for economic heavyweights like the U.S., the U.K., China and Japan, ‘exports to Russia are of negligible importance.’ Even for Germany – Europe’s biggest economy – Russia is just its eleventh biggest export destination.” See chart below.



Primary source: Capital Economics

- HSBC reports its China manufacturing purchasing managers' index (PMI) declined to a seven-month low preliminary reading of 49.5 in December, following a level of 50.0 in November. Hongbin Qu, an economist at HSBC, commented: 'Domestic demand slowed considerably, falling below the 50 level for the first time since last April. Price indices also declined sharply ... The rising disinflationary pressures, which fundamentally reflect weak demand, warrant further monetary easing in the coming months.'

#### THURSDAY, DECEMBER 18TH

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 6,000 to 289,000 in the week ended December 13th. – the fewest in six weeks – while continuing claims fell by 147,000 to 2.37 million in the week ended December 6th.
- Front Page Headline, Wall Street Journal – “Russian President Putin Strikes Harsh Tone on Tensions with West. At his annual news conference in Moscow, Russian President Putin sought to reassure Russians that the country's economic troubles will pass in no more than two years, stating: 'The Russian government and central bank are responding (to the currency crisis) appropriately, although some things could have been done more urgently ... The West is seeking to subdue and disarm Russia. Despite the severe impact of Western sanctions, the current economic troubles are payment for our independence, our sovereignty ... Our hope is that the recovery in the exchange rate that began yesterday, driven by moves to ease banking regulations and encourage exporters to sell foreign currency, will continue ... I remain confident of public support because people with their hearts and souls feel that we, and I, are acting in Russia's best interests.'”



Russian President Putin at his Moscow Press Conference.  
Source: Associated Press

- The Munich-based Ifo Institute for Economic Research reports its German business confidence index – based upon a survey of 7,000 executives – rose to a reading of 105.5 in December from a level of 104.7 in November. Heinrich Bayer, an economist at Deutsche Postbank AG in Bonn, noted: “This second consecutive increase in the Ifo index strengthens the impression that Germany is leaving its economic trough behind. The domestic economy remains on a growth path and the burden of insecurity emanating from other economies is somewhat less relevant.”

#### FRIDAY, DECEMBER 19TH

- Statistics Canada reports the nation's consumer price index (CPI) declined by 0.4% to an annual rate of 2% in November – its biggest monthly decline in nearly two years – citing lower energy prices. In addition to weaker gasoline prices, the cost of clothing and footwear also fell by 2.3% from October, likely a result of Black Friday discounting by retailers. Lower fuel prices were also a factor in a 1.7% decline in the recreation, education and reading materials segment, which was led by a sharp drop in travel costs.

CLOSING LEVELS FOR FRIDAY, DECEMBER 19TH.		WEEKLY CHANGE
Dow Jones Industrial Average	17,804.80	+ 523.97 points
Spot Gold Bullion	\$1,196.00 (U.S.)	– \$26.50 per troy oz.
Spot Silver	\$16.07 (U.S.)	– \$0.98 per troy oz.
S&P / TSX Composite	14,468.26	+ 737.21 points
10 –Year U.S. Treasury Yield	2.16%	+ 8 basis points
Canadian Dollar	86.15 cents (U.S.)	– 0.27 cent
U.S. Dollar Index Future	89.591	+ 1.216 cents
WTI Crude Oil Futures	\$57.13 (U.S.)	– \$0.68 per barrel
DJIA / Gold Ratio	14.887	+ 0.751 point
Gold / Silver Ratio	74.424	+ 2.724 points

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