

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

# THAT WAS THE WEEK THAT WAS



## Monday, September 31ST

Dell Inc. announces the takeover of Perot Systems in a \$3.9 billion (U.S.) deal, citing its bid to compete with IBM and Hewlett Packard in computer services

## MONDAY, SEPTEMBER 21ST

- David Rosenberg, chief economist at Gluskin Sheff and Associates in Toronto, comments that U.S. equities are currently overvalued, citing the Standard and Poors (S&P) index rally of 58% from a 12-year low in March /09
- The State of California launches an \$8.8 billion (U.S.) issue of short-term notes to mature in May and June of 2010. California will use the funds to finance its obligations in advance of income tax receipts expected later in its fiscal year.
- The Province of Alberta, rated 'AAA' launches a \$600 million (CAD) issue of 10-year bonds bearing a coupon of 4% and priced at a yield spread of 72.5 basis points over comparable Government of Canada bonds. Alberta plans to raise a total of \$3.3 billion (CAD) over the next 3 years to fund infrastructure projects.
- U.S. industrial production increased by 0.6% in August
- The Executive Board of the International Monetary Fund approves gold sales in a size strictly limited to 403.3 metric tons at a time, representing 1/8 of the funds total holdings. Managing Director Dominique Strauss-Kahn states that "these sales will be conducted in a responsible and transparent manner that avoids disruption of the gold market".

## TUESDAY, SEPTEMBER 22ND

- The U.S. Federal Housing Finance Agency housing index rose by 0.3% in July, following an increase of 0.5% in June
- Statistics Canada reports that Canada's retail sales declined by 0.6% in July, following an increase of 1% in June
- The Global Financial Sectors Index reveals that Toronto has slipped a spot to 13th. place, while London and New York retained their top positions
- Canadian commercial vacancies have increased by nearly 50% in the past year and experts cite this could remain the case for several years
- Trans Canada Pipe Lines raises \$300 million (CAD) via equity issue

## WEDNESDAY, SEPTEMBER 23RD

- The Federal Open Market Committee (FOMC) holds the Fed Funds rate steady in a range of 0 – 0.25%, citing a cautious, but optimistic outlook for the U.S. economy and extends its mortgage purchase program to the end of March, 2010

- The composite Eurozone economic index, which includes manufacturing and services, rose from a reading of 50.4 in August to 50.8 in September – the highest level in 16 months
- General Mills reports net earnings of \$420 million (U.S.) in the 1st. fiscal quarter compared to \$278.5 million (U.S.) in the same period a year ago

#### THURSDAY, SEPTEMBER 24TH

- The U.S. Labor Department reports that initial claims for state unemployment benefits declined by 21,000 to 530,000 in the week ended September 19th. from a revised 551,000 the prior week; while continuing claims fell by 90,000 to a seasonally adjusted 6.14 million in the week ended September 12th. While this drop in continuing claims could reflect some re-entry into the work force, there also exists the strong probability that a host of claimants may have exhausted their unemployment benefits. In point of fact, in the first week of September, 9.5 million Americans were claiming unemployment insurance benefits of varying form, including 3.7 million people who were receiving extended benefits; which are available only after being unemployed for more than six months. However, extended benefits are due to expire early in 2010. In recent testimony before a Congressional committee, Gary Burtless, a labour economist at the Brookings Institution, urged lawmakers not to allow the extra weeks of benefits to expire. “It will be hard for workers to find jobs for many months and probably for a number of years.”
- The German Federal Finance Agency announces a 22% cut in debt issuance for the 4th. quarter, citing the planned sale of \$87 billion (U.S.) of treasury bills and bonds maturing within one year; as a result of a reduction in funding requirements
- Nomura Holdings Inc., Japan’s largest brokerage firm, announces that it will raise 5.6 billion (U.S.) in capital via share issuance, in order to fund expansion plans in the United States
- U.S. existing home sales declined by 2.7% in August to a seasonally adjusted annual rate of 5.1 million units; following an increase of 7.2% to 5.24 million units in July. At least 70% of sales were below a price of \$250,000 as first-time home buyers continued to take advantage of the 8% tax credit which expires in November /09.
- Former Federal Reserve Chairman and current chair of President Obama’s economic advisory panel, Paul Volcker, testifies before the House Financial Services Committee that removing the Fed’s supervisory authority over the nation’s banks would be a mistake. “The Federal Reserve Board should not become an academic seminar debating in its marble palace various approaches toward monetary policy without the leavening experience of direct contact with, and responsibility for, the world of finance and the institutions through which monetary policy is effected”. A proposal under consideration by the Senate Banking Committee would create a mega-regulator comprised of the four national banking agencies, including the Fed. See Winter Warning, September 14, 2009 – Behold a Pale Horse and He Who Sat Upon Him Was Named Death, and Hell Followed With Him
- Doug Hyndman, former chairman of the British Columbia Securities Commission and now chair of the “transition office” to create a new, federally sponsored national regulator, states that it could be operational by 2010; after a transition plan and a new draft for a national securities act are completed by mid-2010. Mr. Hyndman continues that the federal government will soon announce the names of “quite a few” provinces that have agreed to participate in the work of designing the structure and details of a new national commission. What Finance Minister Flaherty and Mr. Hyndman are ignoring is lack of support for a single regulator from Quebec, Alberta and Manitoba. In fact, a lawsuit filed by the Province of Quebec earlier this year, cites Quebec’s right to a securities commission as legislated within the Canadian Act of Confederation.
- Spain slides into a full-blown economic depression as the Madrid research group RR de Acuna & Asociados cites the collapse of Spain’s construction industry will cause its economy to contract for the next three years, with a peak to trough loss of over 11% of gross domestic product (GDP). RR de Acuna states that the overhang of unsold properties on the market, or still under construction, has reached 1.623 million units. Since annual demand is 218,000 units, it will take six to seven years to absorb. The group forecasts that Spain’s unemployment rate will peak around 25%, comparable to the worst chapter of the Great Depression of the 1930’s.

- Germany's Ifo Institute reports its business climate index rose from a reading of 91.3 in September from 90.5 in August
  - Great-West Lifeco plans to raise \$250 million (CAD) via a preferred share issue offering a yield of 5.65% and redeemable in 2014
  - Former chief economist of the International Monetary Fund (IMF) and current Harvard University professor, Ken Rogoff, warns that the high levels of government debt globally, represent the most likely catalyst for the next economic downturn. "The huge increase in government debt has led to patently unsustainable fiscal policies across a number of major countries. So far, the rest of the world has been willing to finance it, primarily with savings from China and elsewhere, but if investor confidence is shaken, we might see the interest rates on long-term debt rising and rising very sharply."  
Here at Long Wave Analytics, we couldn't agree more! See Winter Warning, September 28, 2009 – The U.S. Greenback Will Be Cast into the Hazard.
- FRIDAY, SEPTEMBER 25TH
- Group of 20 leaders meeting in Pittsburgh, Pennsylvania, agreed to implement much tighter regulation over financial institutions, complex financial products and executive compensation. The leaders pledged to rethink their economic policies in a coordinated effort to reduce the immense imbalances between export-dominated countries like China and Japan and debt-laden countries like the United States.
  - The Commerce Department reports that U.S. new home sales rose by 0.7% in August to a seasonally adjusted annual rate of 429,000 from a downwardly revised 426,000 in July
  - The Province of Ontario records a deficit of \$6.4 billion (CAD) for the fiscal year ended March 31, 2009, well in excess of the \$3.9 billion (CAD) forecast in the government's budget, citing a steep drop in corporate revenues
  - U.K. and French officials are upset by American proposals that could threaten both countries' seats on the International Monetary Fund Board of Directors. The U.K. and France both publically support the reweighting of the IMF's shareholding structure to give a greater voice to the larger developing countries, including India and China, but not at the expense of their permanent board seats. See Resorting To The Last Lender – IMF Commentary from the G-20 London Summit.
  - U.K. automobile production declines by 31.5% in August
  - The Commerce Department reports that U.S. durable goods orders declined by 2.4% in August, citing a significant drop in orders for new airplanes
  - ING Canada posts 1st. quarter loss of \$36.3 million (CAD) due to equity portfolio losses