

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



### Monday, February 8TH

According to the Royal Bank's proxy circular, Chief Executive Officer Gordon Nixon was remunerated \$10.4 million (CAD) in 2009, an increase of \$1.65 million (CAD) over 2008

### MONDAY, FEBRUARY 8TH

- According to the Globe & Mail, an unnamed Ontario government source has "leaked" the probability that Ontario Finance Minister Dwight Duncan will provide either a grant, or a loan to the Province's Pension Benefits Guarantee Fund in order to support pensioners of Nortel Networks Corp. While \$200 million (CAD) is rumoured, it is not exactly known how much the guarantee will cost the Province. Supposedly, the source stated "the Minister is providing reassurance to Nortel workers that the Pension Benefits Guarantee Fund will be in place," once the company emerges from bankruptcy court protection. At this rate, it will take Ontario "forever" to eliminate its own budget deficit.
- In the meantime, under a new \$57 million (CAD) funding agreement, negotiated between Nortel Networks and two groups representing former employees, company pensioners will have their benefits coverage extended until the end of 2010, instead of seeing them expire on March 31st.
- In the Alberta Court of Appeal, the Province of Alberta's Finance Minister Ted Morton files a constitutional challenge to the federal government's plan to create a single national securities regulator, citing the federal plan is an intrusion into provincial jurisdiction over securities regulation. Last year, the Province of Quebec filed a similar challenge in the Quebec Court of Appeal.
- Canada Mortgage and Housing Corp. (CMHC) reports Canadian housing starts rose by 5.8% in January

### TUESDAY, FEBRUARY 9TH

- Calgary-based fertilizer producer Agrium Inc. posts a net profit of \$30 million (U.S.) in the 4th. quarter of 2009, compared to a net profit of \$124 million (U.S.) in the same period of 2008
- Sales in McDonald's U.S. restaurants open for at least 13 months (same-store sales) declined by 0.7% in January, but rose by 4.3% in Europe, Asia/Pacific, Middle East and Africa. McDonald's also reports it will take a \$40 million (U.S.) to \$50 million (U.S.) tax charge in the first half of this year related to the closing of 430 restaurants in Japan.
- The Cabinet Office reports Japanese core machinery orders rose by 20.1% in December over November, citing strong demand from the manufacturing sector
- SAS, the Scandinavian airline group, announces another 700 job layoffs and reports a loss before taxes of 3.4 billion kronor (\$461 million U.S.) for 2009. The airline also announced a share issue of 5 billion kronor (\$670 million U.S.) 58% of which has the support of the group's three state stakeholders – Sweden, Denmark and Norway – as well as the Wallenberg family. A consortium of banks has agreed conditionally, to underwrite the remaining 42% of the issue.
- According to the Insolvency Service, a total of 134,142 Britons declared bankruptcy during 2009, the highest level since records began in 1960 and a sharp increase from the previous record of 107,288 personal bankruptcies in 2006.

- American credit rating agency Standard & Poors revises its outlook for Citigroup and Bank of America from stable to negative, indicating there is a 33% chance that it will downgrade the 'A' credit rating for the two banks within the next 6 – 24 months. In a statement, the agency commented: "The outlook revision reflects our increased uncertainty about the U.S. Government's willingness to provide additional extraordinary support to highly, systematically important financial institutions in a way that will benefit (protect) debt (bond) holders."
- Britain's trade deficit rose to 7.3 billion pounds in December compared to 6.8 billion pounds in November. In tandem, the American credit rating agency Fitch Ratings warned that the U.K. was among the countries most vulnerable to losing its coveted 'AAA' credit rating. Brian Coulton, manager of Europe, Middle East and Asia (ENEA) sovereign ratings at Fitch commented: "The U.K., among the 'AAA's, is one of the most vulnerable, with Spain and France." Fitch has previously, warned that if the government does not pursue an aggressive program of fiscal tightening after the spring election, Britain's 'AAA' credit status would be threatened. Standard and Poors has already downgraded the outlook for Britain's sovereign debt rating from "stable" to "negative".
- Zurich-based UBS AG reports a net profit of 1.21 billion Swiss francs (\$1.13 billion U.S.) in the 4th. quarter, citing lower costs and a tax credit, but revealing an acceleration of net client redemptions from its wealth management units
- Talisman Energy posts a net loss of \$111 million (CAD) in the 4th. quarter, compared with a profit of \$1.17 billion (CAD) in the same period a year ago
- The Bank of England lowers its gross domestic product (GDP) growth estimate for the U.K. from 4% to 3.2% by the 2nd. quarter of 2011. Meanwhile, the U.K. inflation rate is predicted to climb to 3.3% before retreating below the Bank's target of 2%.
- In a Financial Times article entitled "A Greek Crisis Is Coming to America," financial historian Niall Ferguson observes: "For the world's biggest economy, the U.S., the day of (debt) reckoning still seems reassuringly remote. The worse things get in the euro zone, the more the U.S. dollar rallies as nervous investors park their cash in the 'safe haven' of American Government debt. This effect may persist for some months, just as the dollar and Treasuries rallied in the depths of the banking panic in late 2008. Yet even a casual look at the fiscal position of the federal government (not to mention the states) makes nonsense of the phrase 'safe haven'. U.S. government debt is a safe haven the way Pearl Harbour was a safe haven in December, 1941. Even according to the White House's new budget projections the gross federal debt in public hands will exceed 100% of gross domestic product (GDP) in just two years' time. This year, like last year, the federal deficit will be around 10% of GDP. The long-run projections of the Congressional Budget Office (CBO) suggest that the U.S. will never again run a balanced budget. That's right, never." (See also Winter Warning, September 22, 2008 – The Flight to Folly).

### WEDNESDAY, FEBRUARY 10TH

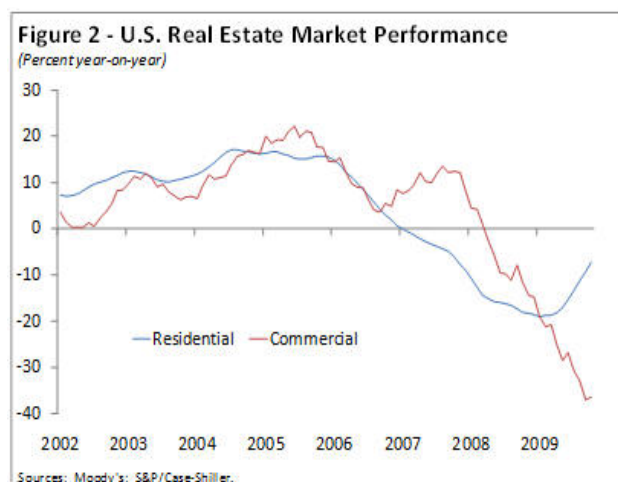
- The Commerce Department reports the U.S. trade deficit widened to \$40.2 billion (U.S.) in December from \$36.4 billion in November, citing increased petroleum imports; but it contracted to \$38.7 billion (U.S.) for the year 2009 from \$69.9 billion (U.S.) in 2008
- The Bloomberg Professional Global Confidence Index declined to a reading of 54.9 in February from a level of 66.6 in January, citing worsening sovereign debt and fiscal deficits with European Union members Greece, Spain and Portugal; as well as the United Kingdom and the United States, could jeopardize a global economic recovery. Are the light bulbs finally turning on in the heads of some professionals? (See Winter Warning, January 11, 2010 – It's the Debt, Stupid).
- Statistics Canada reports the country posted a trade deficit of \$4.8 billion (CAD) for 2009, citing the sharp drop in commodity prices early in the year and compared to a surplus of \$46.9 billion (CAD) in 2008
- The Province of Alberta budgets for a record \$4.7 billion (CAD) deficit for its fiscal year ending March 31, 2011, opting to reduce spending across 15 ministries, cut more than 700 jobs; but increase spending on health care and education, while holding the line on social programs, without raising taxes. Alberta is also projecting a balanced budget for its fiscal year ending March 31, 2013, since it plans to draw down \$12.2 billion (CAD) from its \$15 billion (CAD) Sustainability Fund. Finance Minister Ted Morton stated: "These choices, we believe strike the right balance between spending too much and spending too little. Between fiscal discipline and protecting essential services. And between funding services today and also not saddling future generations with debt."
- In testimony prepared for the House Financial Services Committee hearing that was cancelled due to another Washington snowstorm, Federal Reserve Chairman Ben Bernanke reveals that the rate of interest the Fed pays to banks on excess reserves may for a time replace the federal funds rate as its main monetary policy tool

- Montreal-based Air Canada posts a net loss of \$56 million (CAD) in the 4th. quarter of 2009, citing foreign exchange gains of \$108 million (CAD) and compared to a net loss of \$727 million (CAD) in the same period of 2008

THURSDAY, FEBRUARY 11TH

- The Labor Department reports initial claims for state unemployment benefits declined by 43,000 to 440,000 in the week ended February 6th. while continuing claims fell by 79,000 to 4.538 million in the week ended January 30th.
- European Union President Herman Van Rompuy announces: "Euro area member states will take determined and coordinated action, if needed, to safeguard financial stability in the euro area as a whole. We fully support the efforts of the Greek Government and their commitment to do whatever is necessary including adopting additional measures, (however, to date) Greece has not asked for any financial support." Details of a potential financial support package for Greece will likely include interest-bearing loans and be disclosed after meetings of euro finance ministers in Brussels on February 15th. and 16th.
- Statistics Canada reports the New Housing Price Index rose by 0.4% in December, mirroring a similar increase recorded in November
- Manulife Financial Corp. posts a net profit of \$868 million (CAD) in the 4th. quarter of 2009, compared to a net loss of \$1.87 billion (CAD) in the same period in 2008
- Sun Life Financial reports net earnings of \$296 million (CAD) in the 4th. quarter, compared to a profit of \$129 million (CAD) in the same period of 2008
- Spain reports its gross domestic product (GDP) declined by 0.1% in the 4th. quarter of 2009, following a drop of 0.3% in the 3rd. quarter and marking the 6th. consecutive quarter of economic contraction, while the unemployment rate reached 18.8%. (See Winter Warning, January 11, 2010 – The Pain in Spain Is Likely To Remain)
- Dow Jones & Co. sells its iconic Dow Jones Industrial Average (DJIA) and other stock market gauges to the Chicago Mercantile Exchange (CME), a derivatives market that offers futures contracts and options on various financial products. The CME will pay \$675 million (U.S.) for a 90% stake in the Dow Jones indexes.

- In a 183-page report, the Congressional Oversight Panel, as part of its scrutiny of the Troubled Asset Relief Program (TARP), warns nearly 3,000 small U.S. banks could be forced to dramatically curtail their lending because of losses on commercial real estate loans. The panel reported that it is "deeply concerned" that commercial real estate loan losses could jeopardize the stability of many small banks. Elizabeth Warren, a Harvard law professor who is the Chair of the Congressional Oversight Panel commented: "The banks that are on the front lines of small business lending are about to get hit by a tidal wave of commercial loan failures."



- A dispute over BT Group's unfunded retirement liabilities is surfacing after the U.K. Pensions Regulator announced it has taken umbrage with sections of the 9 billion pound pension fund deficit agreement, which the telecommunications giant has arranged with its pension trustees. BT has agreed to a 17-year recovery period for the plan and will make additional contributions in excess of 500 million pounds annually. However, upon submitting the pension deficit agreement to the regulators for approval, BT warned: "The Pensions Regulator's initial view is that they have substantial concerns with certain features of the agreement."
- At a special joint session of the New Jersey legislature, Governor Chris Christie announces a series of detailed spending cuts, including reductions to aid for K-12 schools, colleges, hospitals and the state subsidy to New Jersey Transit, which are intended to help resolve a \$2.2 billion (U.S.) deficit in the State's budget for the current fiscal year. The Governor warned that more difficult decisions will follow for next year's budget, which will be presented to the legislature in March: "So today, let's begin the process of fiscal reform and discipline. Today, I begin to do what I promised the people of New Jersey I would do" when elected last November.

FRIDAY, FEBRUARY 12TH

- The Commerce Department reports U.S. retail sales rose by 0.5% in January, following a revised decline of 0.1% in December previously reported as 0.3%, citing increased sales of electronics and appliances.
- The University of Michigan/Reuters preliminary consumer sentiment index fell to a reading of 73.7 in February from 74.4 in January, reflecting a more cautious outlook for the U.S. economy by consumers in the coming months
- The European Union's statistics office in Luxembourg reports euro zone gross domestic product (GDP) rose by 0.1% in the 4th. quarter of 2009, following an expansion of 0.4% in the 3rd. quarter
- The People's Bank of China raises bank reserve requirements by 50 basis points (1/2 of a percentage point) to 16% for big banks and 14% for small banks, citing accelerating bank loan growth and an overheated real estate market. Indeed, at a recent Asia-Pacific Loan Association conference, Neil McDonald, a Hong Kong-based business restructuring and insolvency lawyer with Lovells LLP, stated: "We work really closely with SASAC, the state-owned enterprise regulator in China and there are literally, trillions and trillions of renminbi of, frankly, defaulting loans already in China that no one is doing anything about. At some point, there's going to be a reckoning for that."
- In his new book *In Search of Self-Governance*, author Scott Rasmussen (President of polling agency Rasmussen Reports) reveals only 35% of American voters realize that the majority of U.S. federal government spending includes only defense, Medicare and Social Security. Mr. Rasmussen observes: "Given the amount of political chatter about the budget in recent years, it is almost beyond comprehension that neither (political) party has seen fit to highlight the (budget) basics so that the American people can make reasoned choices on the fundamental issues before them."
- Calgary-based cable and satellite provider, Shaw Communications Corp. offers to buy a controlling stake in CanWest Global Communications Corp. which would assist CanWest in the repayment of its creditors and help it emerge from creditor protection. If successful, the offer would result in Shaw owning at least 20% of CanWest's equity and 80% of its voting stock. The offer does not affect the restructuring of CanWest's newspaper division, or the auction of those assets such as the National Post. In a news release, Shaw Communications Chief Executive Officer, Jim Shaw stated: "We are excited about the investment and gaining effective control of one of the premier broadcasters and owners of content in the Canadian broadcasting industry at a reasonable valuation."
- Greece reports its gross domestic product (GDP) contracted by 0.8% in the 4th. quarter of 2009, following significant revisions to GDP contractions reported previously: the first quarter of 2009 was amended to 1.0% from 0.5%; the second quarter was changed to 1.9% from 1.2% and the third quarter was revised to 2.5% from 1.7%. A European Union government source stated that EU nations had agreed they would assist Greece with loans only as a last resort: "The Greeks have fooled us around for 10 years. That's why nobody is going to rush in (with) a big aid package quickly." (See also *Winter Warning*, January 11, 2010 – *Beware of Greeks Bearing Gifts*)
- Vancouver-based telecom provider Telus Corp. reports a profit of \$156 million (CAD) in the 4th. quarter of 2009, compared to a profit of \$285 million (CAD) in the same period a year ago, citing huge investments in network infrastructure. In a news release, Telus President and Chief Executive Officer Darren Entwistle stated: "There is no question that (while) the last year was a challenging one economically, it was also one where we made progress with game-changing capital projects and significant investments in operational efficiency to improve our cost structure."

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