

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



Monday, February 22ND

Nortel Networks and its creditors are seeking to block the U.K. pensions regulator from pursuing a claim worth as much as 2.1 billion pounds (\$3.3 billion U.S.) against the company's world wide assets to cover the unfunded liabilities in its U.K. pension plan

MONDAY, FEBRUARY 22ND

- Schlumberger Ltd., the world's largest oilfield services provider, announces an \$11 billion (U.S.) takeover of Smith International Inc., citing it will strengthen Schlumberger's competitive position in offering breakthrough advances in technology to oil and natural gas producers. The all-stock transaction provides shareholders of Houston-based Smith International with a 0.6966 of a Schlumberger share for one share of Smith.
- In an interview on Skai Television, Greece's Deputy Prime Minister, Theodoros Pangalos, declared a lack of leadership within the European Union (EU) has worsened Greece's financial crisis by failing to calm bond market fears the country might default on its massive debt load. Mr. Pangalos stated: I'm of the opinion that today's Europe has no political leadership. The people who are managing the fortunes of Europe were not up to the task" of dealing with Greece's financial crisis. Mr. Pangalos spoke as officials from the EU and the International Monetary Fund (IMF) were due in Athens to begin a rigorous inspection of Greece's public finances. The debt problems of Portugal, Ireland, Spain and Italy, notwithstanding, here we have a classic case of the "the pot calling the kettle black." How does Mr. Pangalos explain the rampant corruption within Greece's bureaucracy and the lies/falsifications uncovered in Finance Department records; as well as the reckless spending by the Greek government? The answer to all of the above is certain: MADE IN GREECE.
- Lowe's Cos. reports a net profit of \$205 million (U.S.) for the fourth fiscal quarter ended January 29th. compared to a profit of \$162 million (U.S.) in the same period a year ago
- According to a USA Today analysis of U.S. federal salary data, American federal government employees making salaries of \$100,000 (U.S.) per annum or more, rose from 14% to 19% of civil servants between mid-2007 and the end of 2009; excluding bonuses and overtime pay. The growth in six-figure salaries has pushed the average federal worker's annual remuneration to \$71,206 (U.S.), compared to \$40,331 (U.S.) in the private sector.
- Citigroup has issued the following statement to its depositors on a nationwide basis: "Effective April 1, 2010, we reserve the right to require (7) days advance notice before permitting a withdrawal from all checking accounts. While we do not, currently exercise this right and have not exercised it in the past, we are required by law to notify you of this change." What a subtle way of encouraging your depositors to transfer their chequing accounts to another bank which doesn't embrace such an insane policy!"
- Tom Dresslar, a spokesman for California Treasurer Bill Lockyer, announces a \$4 billion (U.S.) bond issue for March to finance state infrastructure improvements. Mr. Dresslar stated new legislation will assist Controller John Chaing and the Department of Finance to defer general fund payments for specific programs and for specific time periods, commenting: "It will position the State to avoid (the issuance of) IOUs if there's a budget delay." California's tax-exempt general obligation bonds are rated Baa1 by Moody's; 'A' (Low) by Standard & Poors and 'BBB' by Fitch.

STATES WITH MOST WORKERS EXHAUSTING BENEFITS

California	201,274
Florida	105,016
New York	85,647
Texas	82,850
Illinois	65,431

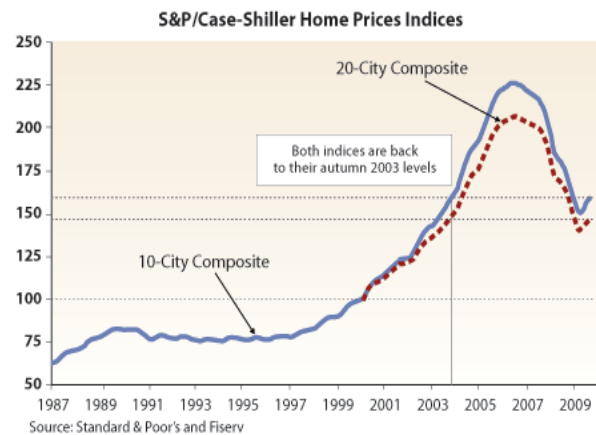
SOURCE: NATIONAL EMPLOYMENT LAW PROJECT

- CNN reports that in excess of one million people could lose their jobless benefits and health insurance subsidy in March, if Congress doesn't act this week. The U.S. Senate has until February 28th. to extend the deadlines for people who are exhausting their state benefits, to apply for federal unemployment benefits and the COBRA health insurance subsidy.
- Dai-ichi Life, Japan's second-largest life insurance company announces plans to raise more than a trillion yen (\$11 billion U.S.) through an initial public offering (IPO) in a Tokyo listing. By selling 7.2 million shares at 150,000 yen per share, this will represent the largest IPO by a Japanese corporation in more than a decade.
- At a weekend meeting of the National Governors Association, U.S. Education Secretary Arne Duncan warned: "I am very, very concerned about (teacher) layoffs going into the next school year starting in September. Good (school) superintendents are going to start sending out pink slips in March and April as they start to plan for their (fall) budgets." With so many American States running huge deficits, did you not think that there would be cuts made to education budgets, Mr. Secretary?

TUESDAY, FEBRUARY 23RD

- In an interview with the Italian newspaper La Repubblica, Olivier Blanchard, chief economist of the International Monetary Fund (IMF), warns that deficit reduction plans for highly indebted euro zone economies will prove "extremely painful" and would require concerted efforts "over 10 to 20 years." In the short-term countries would have low growth rates and "sacrifices on salaries will be inevitable in order to regain competitiveness."
- The German Ifo business climate index declined to a reading of 95.2 in February from a level of 95.8 in January. Ifo President Hans-Werner Sinn reported the cautious outlook for the retail sector was responsible for the decline.

- Atlanta-based Home Depot posts a profit of \$342 million (U.S.) in its fiscal 4th. quarter ended January 31st. compared to a net loss of \$54 million (U.S.) in the same period a year ago, citing increased demand for kitchen, bath, paint and flooring products.
- The Conference Board's U.S. consumer confidence index declined to a reading of 46 in February from a revised level of 56.5 in January, as consumers voiced their concerns about the outlook for the economy and the labour market
- The S&P Case/Shiller U.S. National Home Price Index declined by 2.5% in the 4th. quarter of 2009 compared to the same quarter in 2008. The index revealed home prices in 10 and 20 major metropolitan areas were 2.4% and 3.1% lower, respectively, in December 2009 compared to December 2008.



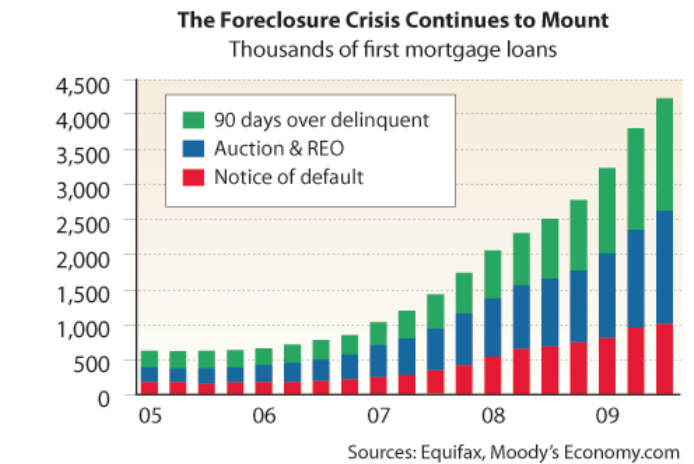
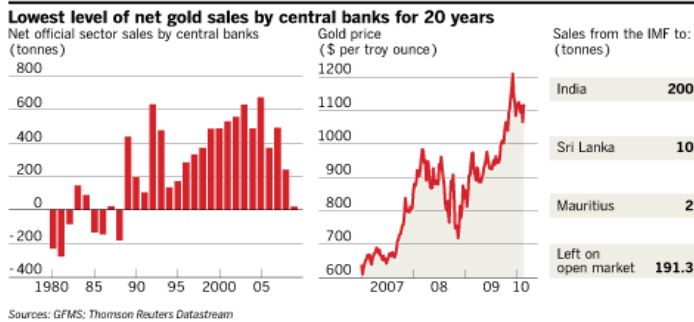
- In testimony before lawmakers, Bank of England (BOE) Governor Mervyn King stated that economic recovery in the euro zone "appears to have stalled" and noted it was difficult to determine a time when U.K. exports would improve to coincide with a drop in U.K. domestic demand. "We would very much like to see a recovery in the world economy, led by our biggest trading partner. That would be a big help if the euro area were to grow more rapidly." Asked whether the BOE would restart its quantitative easing program (direct purchases of investment securities for its own balance sheet), the Governor remarked: "I don't know, but we stand ready to do whatever seems appropriate."
- In a speech at the University of San Diego, Janet Yellen, President of the Federal Reserve Bank of San Francisco, warns the United States faces the prospect of a jobless recovery with slow employment growth, predicting the unemployment rate, now 9.7%, will fall to 9.25% by the end of 2010 and 8% by the end of 2011.

- In its annual report on the U.S. banking industry, the Federal Deposit Insurance Corporation (FDIC) announces it has added 450 institutions to its list of challenged lenders and warns that the banking industry is likely to remain under stress. The number of designated problem banks rose to 702 at the end of 2009, compared to 252 at the beginning of that year. Both the number of troubled institutions and their total assets are at the highest level since 1993, putting enormous strain on the government-administered insurance fund which protects customer deposits. FDIC Chairwoman, Sheila Bair stated: "There is incremental improvement (since) we are seeing some encouraging signs here. Over all, the banking system is challenged, but stable."
  - Greek government finance department officials say they are considering raising between 3 billion euros (\$4.1 billion U.S.) and 5 billion euros, possibly via a bond issue, perhaps as soon as this week. However, a bond issue has not been confirmed. The coupon rate that Greece must offer investors will be closely watched as an indication of whether Greece can meet its funding needs in the next few months, without a potential bailout from other euro zone countries.
  - Speaking at a conference in Tokyo, Ken Rogoff, a former chief economist at the IMF, now an economics professor at Harvard University, warns that after banking crises, "we usually see a group of sovereign defaults, say in a few years. I predict (that) we will again. It's very, very hard to call the timing, but it will happen."
- WEDNESDAY, FEBRUARY 24TH

- The Commerce Department reports U.S. new home sales declined by 11% to an annual pace of 309,000 in January. Julia Coronado, a senior economist at BNP Paribas in New York commented: "The (home) foreclosure flow is robbing demand from the new homes market and that process seems to be strengthening. The new homes market just can't get off the floor. If new homes suffer, construction suffers and jobs suffer."
- According to a report from the Federal Deposit Insurance Corporation (FDIC), in 2009, U.S. banks posted their sharpest decline in lending since 1942. While top-tier banks are recovering at a faster pace, the rest of the banking industry is still suffering. Banks fighting for survival, especially those plagued by losses on commercial real estate loans, are less willing to extend loans, siphoning credit from businesses and consumers. Moreover, during 2009, in excess of all bank loans were at least 3 months past due and the problems are expected to last through 2010.
- In a Bloomberg Television interview, Jon Corzine, former chairman and chief executive officer of Goldman Sachs and former Governor of New Jersey stated: "People are broadly frustrated with the (Wall Street) financial institutions and since it (Goldman) is the leader of the industry and has shown great success over a long period of time, I think it's more vulnerable." (See Winter Warning, February 15, 2010 – For the Love of Money)
- In a Tokyo interview, Harvard University professor and former chief economist of the International Monetary Fund, Ken Rogoff, warns: "China's economic growth will plunge to as low as 2% following a collapse of a "debt-fueled bubble" within 10 years, sparking a regional recession. We would (then) learn just how important China is when that happens. It would cause a recession everywhere surrounding the country, including Japan and South Korea and be horrible for Latin American commodity exporters."
- In his semi-annual report to the House Financial Services Committee, Federal Reserve Chairman Ben Bernanke testifies that record low interest rates are still needed to ensure that the economic recovery will last and to help ease the sting of high unemployment.
- The Federal National Mortgage Association (Freddie Mac), the U.S. Government-controlled mortgage finance company, reports a loss of \$7.8 billion (U.S.) in the final quarter of 2009, which included a \$1.3 billion (U.S.) dividend payment to the Treasury Department
- In his budget speech at the Hong Kong Legislative Council, Financial Secretary John Tsang warns of an "increased risk of a bubble forming in the Hong Kong property market," raises taxes on luxury home transactions and announces plans to loosen its land auction policies
- According to the Financial Times, China's state-controlled banks are rushing to raise money from public markets to bolster their balance sheets, following a year of unprecedented loan growth and the introduction of stricter capital requirements by regulators. This week, Chinese banks have announced plans to raise 76 billion renminbi (\$11 billion U.S.) via equity and bond issues, with at least 150 billion renminbi (\$22 billion U.S.) of bank fund-raising in the pipeline.
- Liverpool-based fashion retailer Ethel Austin files for bankruptcy protection while announcing 1,048 job layoffs and the closing of 114 stores

- The U.S. Securities and Exchange Commission (SEC) votes, by a 3-2 margin, to limit the short selling of stocks that are falling rapidly in price. The limit would apply to any stock whose price has fallen by at least 10% during a one-day trading session. After that, short-selling would still be permitted, but only if the sale was at a price higher than the best bid then available. SEC Chairwoman Mary Schapiro noted the rule would force short-sellers to stand at the back of the line, unable to sell shares until all actual owners who wanted to sell, had been able to do so. We find ourselves siding with the two Republican SEC members who voted against the new rule, citing no case had been made to justify the change. Besides, on bad news, stocks can easily drop by more than 10% in price on little or no volume, allowing very few “actual owners” the opportunity to sell..
- The International Monetary Fund (IMF) announces that aside from India’s purchase of 200 tonnes of gold from the IMF in the autumn of 2009, as well as small purchases by Sri Lanka and Mauritius, no other central bank has indicated an interest in the 191.3 tonnes that remain for sale. Trader speculation suggests that if China were to buy gold directly from the IMF for example, it would send a pessimistic signal to the currency markets concerning the U.S. dollar, thereby, negatively impacting China’s sizeable holdings of U.S. Treasuries.

- The Obama administration is considering banning all foreclosures of residential mortgages unless they have been screened and rejected by the U.S. Government’s Home Affordable Modification Program (HAMP). U.S. Treasury spokeswoman, Meg Reilly, commented: “This proposal is one of the many ideas under consideration in the administration’s ongoing housing stabilization efforts, but it has not been approved.”



- France’s national railway has awarded Bombardier Transportation a contract that could be eventually be worth 8 billion euros, equivalent to \$11.4 billion (CAD)

- Davie Yards Inc., Canada’s largest ship builder, seeks creditor protection in Quebec Superior Court and announces 1,590 employee layoffs, while striving to secure additional financing to complete five vessels currently under construction
- The Caisse de depot et placements du Quebec reports a 10% rate of return for 2009, an improvement on its massive losses incurred in 2008, but still below the 14% benchmark index return. The Caisse cited losses it took in its real estate debt portfolio, an underweighting in equity positions, as well as lower returns from private equity investments. In a news release, Chief Executive Officer Michael Sabia noted: “We still have more work to do.” You can say that again, mister!
- U.S. Magistrate Judge Steven Pepe orders former K-Mart Chief Executive Officer, Charles Conaway, to pay more than \$10 million (U.S.) in fines for misleading investors before the retail chain filed for bankruptcy protection in 2002. Judge Pepe wrote: “Acts of deceit and concealment by executive corporate officers who are paid millions of dollars for their services, contributes to a public cynicism about corporate America and erode the public trust, not only, in large corporations, but also, of the effectiveness of governmental regulation to curb such abuses.”

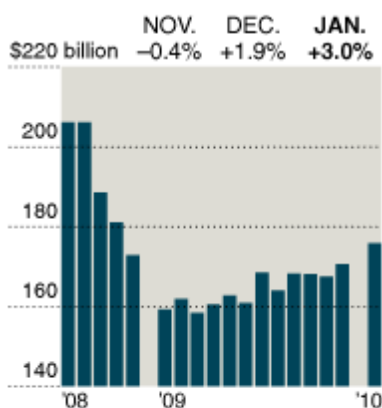
THURSDAY, FEBRUARY 25TH

- In testimony before the Senate Banking Committee in Washington, Federal Reserve Chairman Ben Bernanke states: “We are looking into a number of questions related to Goldman Sachs and other companies and their derivatives arrangements with Greece.”

- The Commerce Department reports orders for durable goods (items expected to last at least 3 years) rose by 3% in January, attributing the gain largely to a 126% increase in commercial aircraft goods.

## Durable Goods Orders

Manufacturers' total new orders for durable goods, seasonally adjusted.



Source: Commerce Department

- Both Standard & Poors and Moody's Investors Service warn that Greece's long term credit ratings could be downgraded. At present, Moody's is the only agency which affords Greece's long-term debt at least an 'A2' rating. A downgrade of two levels would reset Moody's rating to 'Baa1', equivalent to 'BBB' (High) already in place at S&P and Fitch. Accordingly, any further tightening of European Central Bank (ECB) rules regarding collateral for loans would preclude Greece's ability to borrow from the ECB, upon which it has relied heavily in the past.
- In an interview with the Financial Times, U.S. Senator (R-New Hampshire) Judd Gregg warns America is heading for a "debt-driven" financial meltdown within five to seven years and the Chinese leadership has stated "that they are looking for other places to put their reserves and that is probably a smart decision on their part. So, the warning signs are pretty clear and the (higher debt) path is unsustainable and unavoidable at this point, unless we take different actions."

## FRIDAY, FEBRUARY 26TH

- The Institute for Supply Management-Chicago business index rose to a reading of 62.6 in February from a level of 61.5 in January

- Releasing its annual report, American International Group (AIG) posts a net loss of \$8.9 billion (U.S.) for the 4th. quarter of 2009, compared to a net loss of \$61.7 billion (U.S.) in the same period of 2008. The company stated: "AIG intends to provide support" to International Lease Finance Corp. and American General Finance Corp. through February 28, 2011; the third time support has been extended to these plane-leasing and consumer-lending units.
- The National Association of Realtors reports U.S. existing home sales fell by 7.2% in January to a seasonally adjusted annual rate of 5.05 million, the lowest in seven months, signaling the government's extension of a tax credit for first-time buyers is being limited by a lack of employment growth
- In a budget speech covering the fiscal year ending March 31, 2011 Indian Finance Minister, Pranab Mukherjee, announces the government will progressively cut its budget deficit over the next three years, by increasing tax revenues despite continued spending on infrastructure and social welfare projects. Mr. Mukherjee stated: "With (economic) recovery taking root, there is a need to review public spending and mobilize resources and gear them towards building the productivity of the economy."
- The Federal Labour Office reports the German unemployment rate rose to 8.2% in February from 8.1% in January and compared to February, 2008, the number of unemployed has increased by 91,000
- The Frankfurt-based European Central Bank (ECB) reports bank lending to private sector companies in the 16-nation euro zone, declined by 0.6% in January, compared to January, 2009
- The Commerce Department reports U.S. gross domestic product (GDP) expanded by 5.9% in the 4th. quarter of 2009, compared to the 5.7% pace previously reported in January. Inventory rebuilding added 3.88% to GDP, while business investment in computer software and equipment grew at the fastest pace in nearly a decade.
- Iceland risks economic isolation as it fails to restructure a \$5 billion (U.S.) payment agreement made with Britain and the Netherlands last year, regarding a joint British/Dutch bailout of depositors who lost money in Icelandic "Icesave" savings accounts. Iceland's economy contracted by 7.7% in 2009 and is likely to contract again in 2010. Lars Christiansen, a senior analyst at Danske Bank observes: "Nobody dares invest anything in Iceland until this issue is resolved."

- Credit rating agency Standard & Poors (S&P) warns Spain that its weak economic growth prospects could undermine its plan to reduce its budget deficit, making a debt downgrade even more likely. In a statement, S&P noted that Spain's deficit would likely remain above 5% of the country's gross domestic product (GDP) through 2013 versus the government forecast of 3%. As a result, the national debt burden could climb in excess of 80% of GDP by 2012, the agency commented: "Any deficit deterioration over and above our current expectations could put further downward pressure on the ratings."
- Canada's Department of Finance reports a \$3.1 billion (CAD) deficit for December, 2009, increasing the budget deficit for the first nine months of the current fiscal to \$39.4 billion (CAD). That pace suggests the deficit for the full fiscal year could total slightly less than the \$56 billion (CAD) forecast by Finance Minister Flaherty last fall. The above notwithstanding, Parliamentary Budget Officer Kevin Page has repeatedly warned the federal government that its broad range of tax cuts has created a permanent revenue shortfall for the government. Mr. Page has also warned that the government has yet to craft a plan to accommodate the ever-increasing expenses of its aging population. Mr. Flaherty is expected to deliver his budget for fiscal 2011 on March 4th.
- At the annual meeting of JP Morgan Chase, bank Chairman Jamie Dimon warns investors that "there could be a (default) contagion" if California encounters problems making debt repayments. "Greece itself would neither be an issue for JP Morgan Chase, nor, would any other country. We don't really foresee the European Union coming apart." California, however, poses more of a risk, given the State's \$20 billion (U.S.) budget deficit, which Governor Arnold Schwarzenegger is desperately trying to reduce. This week the State's legislature passed bills that will cut the deficit by \$2.8 billion (U.S.) through budget cuts and other measures. Moreover, Mr. Schwarzenegger is seeking an additional \$8.9 billion (U.S.) of additional budget cuts over the next 16 months, as well as \$7 billion (U.S.) in bailout funds from the U.S. Government. (See also Winter Warning, June 8, 2009 – The Golden State at the Brink of Collapse)
- Greece's Prime Minister, George Papandreou, tells parliament that the worst fears about Greece's economy had been confirmed, in that the previous Conservative administration had "fled its responsibilities" understating the country's budget deficit by half. Mr. Papandreou announced: "The damage is incalculable. It is, not only financial or, fiscal, but also, affects the position of the state. Our duty today is to forget about the political cost and think only about the survival of our country. Past policies make it necessary to proceed to brutal changes and reduce accumulated privileges."
- According to the Financial Times, Germany's biggest banks are considering a rescue plan for Greece under which they would purchase Greek bonds backed by financial guarantees by Berlin. As Josef Ackerman, chief executive officer of Deutsche Bank, holds talks with George Papandreou, Greece's Prime Minister, the structure of a possible euro zone bailout for Greece, should the country's debt crisis worsen, began to emerge. One senior German bank official commented that serious thought was being given to the plan for the German Government, working through its development bank KfW, to issue guarantees to banks that bought Athenian debt. If implemented, will this represent the beginning of an economic "white water" trip for Berlin down a river of no return? Who will be next: Madrid, Lisbon, Rome, Dublin?
- The Ontario Government will invest \$81 million (CAD) to help retain and create 757 jobs over the next five years at the Ford Motor Essex Engine Plant in Windsor, Ontario. The investment will contribute toward the creation of a research centre that will study diesel and advanced power train technologies.

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