

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



Monday, March 1st

Statistics Canada reports the Canadian gross domestic product expanded by 5% in the 4th quarter of 2009, citing an improving housing sector, healthy consumer spending and stronger exports

MONDAY, MARCH 1ST

- Ian Thow, a former investment advisor with Berkshire Investment Group in Victoria, B.C. has pleaded guilty in a Vancouver court to 20 counts of fraud, totaling \$10 million (CAD). Mr. Thow, an American citizen, had fled to the United States when the fraud was discovered in the summer of 2005, but was eventually apprehended in Portland, Oregon in March, 2009 and extradited to Canada where he has subsequently been sentenced to nine years in prison, less two years already deemed served. B.C. provincial court Judge Jocelyn Palmer ruled: "Mr. Thow engaged in a methodical system of fraud against persons he purported to treat as friends and family. I find Mr. Thow acted without conscience, a rampant sense of entitlement and unabashed greed that has profoundly changed the lives of his victims. There has been no expression of remorse in this case. Given Mr. Thow's drive to have much more than enough, the law couldn't redress the losses to his victims."
- The Institute for Supply Management, a U.S. industry trade group of purchasing managers, reports its manufacturing index declined to a reading of 56.5 in February from a level of 58.4 in January
- Korea Gas Corp. announces plans to spend \$1.1 billion (CAD) over the next five years, to extract one trillion cubic feet of natural gas from the lucrative gas fields of northeast British Columbia, owned by EnCana Corp. of Calgary, which will advance the province's efforts to become a natural gas export hub

- According to Nortel lawyers, courts in Canada and the United States have thwarted the British Pensions Regulator's attempt to force Nortel Networks Corp. into a separate legal battle in the United Kingdom over a multi-billion dollar claim, allowing the company to focus on the liquidation of its global assets
- In a 12-page section of "risk factors" in its annual report for 2009, Goldman Sachs notes that "adverse publicity" could have "a negative impact on our reputation and on the morale and performance of our employees, which could adversely affect our businesses and results of operations." According to the Wall Street Journal, a Goldman spokesman declined to comment. No kidding! (See Winter Warning, February 15, 2010 – For the Love of Money)

TUESDAY, MARCH 2ND

- As Greece's Prime Minister George Papandreou prepares to meet Germany's Chancellor Angela Merkel on Friday, March 5th. in Berlin, European Union (EU) Monetary Affairs Commissioner Olli Rehn warns that the Greek government must reveal new measures "in the coming days" to allay EU officials' fears that the current Greek austerity plan necessitates further budget cuts, in order to comply with euro zone financial standards

- A ComRes poll for the Independent newspaper indicates a narrow 5% lead for Britain's Conservative party over Prime Minister Brown's Liberal party and suggests the U.K. may elect its first minority government since 1974, in an election expected to be announced for May 5th. Sensing potential political gridlock, sterling and gilts are under pressure as concerns mount in the currency and fixed income markets about Britain's ability to reduce its budget deficit and national debt level.
- The Bank of Canada keeps its Bank Rate unchanged at 0.25%, while acknowledging the country's 5% GDP growth rate in the 4th. quarter of 2009 was "spurred by vigorous domestic spending and a further recovery in exports."  
Instead of wasting his time over the last half of 2009 worrying about whether the central bank should intervene in the currency markets because "the high level of the Canadian dollar" was hurting exports, Bank of Canada Governor Marc Carney should be worrying about the high level of Canada's budget deficit, set to exceed \$50 billion (CAD) by the end of the current fiscal year March 31, 2010.
- According to the Wall Street Journal, Moody's Investors Service is poised to lower its sovereign debt rating outlook for Japan if Tokyo's debt reduction plans lack credibility. Finance Minister Naoto Kan is expected to outline a "medium-term fiscal framework" for debt reduction in June. Thomas Byrne, Moody's fixed income analyst who specializes in Asian government debt warns: "We will be looking to see whether the (debt reduction targets) are clearly identified."
- The Reserve Bank of Australia raises its key lending rate by 25 basis points to 4%, citing "with an improving unemployment rate of 5.3%; and an (economic) growth rate that is likely to be close to trend and an inflation rate close to target over the coming year, it is appropriate for interest rates to be closer to (their long-term) average."
- The Bank of Montreal reports a 1st. fiscal quarter profit of \$657 million (CAD) compared with a profit of \$432 million (CAD) in the same period a year ago, citing increased revenues from Canadian business and consumer lending operations
- Ford Motor Co. of Canada reports vehicle sales of 17,920 in February, a 51% increase from 11,869 sales recorded in February, 2009

### WEDNESDAY, MARCH 3RD

- The Royal Bank of Canada reports a 1st. fiscal quarter profit of \$1.5 billion (CAD), up 35% from the same period a year ago, citing improving business from its domestic and consumer lending business. Chief Executive Officer Gordon Nixon stated: "We continue to see signs of improvement in market and economic conditions and we are taking advantage of opportunities."
- The Canadian Imperial Bank of Commerce reports a 1st. fiscal quarter profit of \$652 million (CAD), compared to a profit of \$147 (CAD) million in the same quarter a year ago, citing higher revenues from both domestic consumer and wholesale banking activities
- The Office of the Superintendent of Bankruptcy Canada reports total insolvencies (which include bankruptcies and proposals among businesses and consumers) declined by 11.1% in December from the November total, although they remain higher than 2009 levels
- In its latest Beige Book economic report, the Federal Reserve cites U.S. economic conditions improved slightly at the start of 2010, but the blizzards which struck the east coast in February negatively impacting several areas
- In an interview with Reuters, Sheila Bair, Chairman of the Federal Deposit Insurance Corp. (FDIC), criticizes major U.S. bankers for their continuing high compensation practices and bonus payments. Ms. Bair lamented: "I just wish these institutions had a better propriety compass. They should have some commitment to the corporation or the bank that they work for, and take some pride in whether they're doing a good job and making money the right way."
- British Columbia's Finance Minister, Colin Hansen, unveils the provincial budget which includes a \$905 million (CAD) increase in total spending, with most of that being allocated to health care and education. While Mr. Hansen projects that the Province's debt level will increase from \$41.3 billion (CAD) to \$55.9 billion (CAD) over the next three years, he also projects the Province will return to a balanced budget by 2013.

### THURSDAY, MARCH 4TH

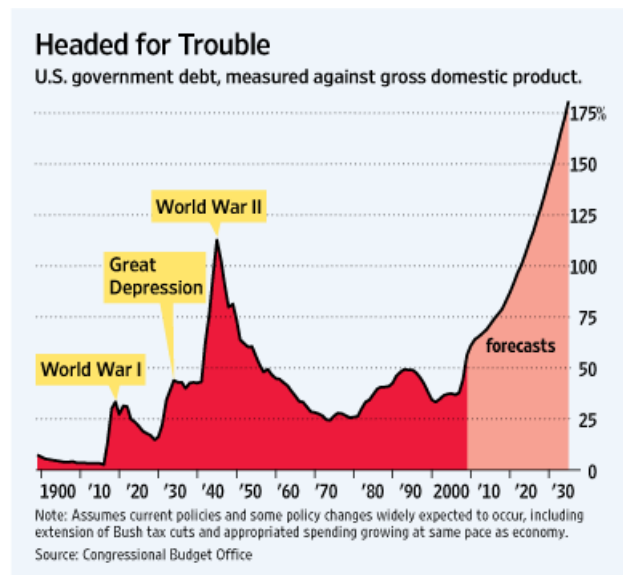
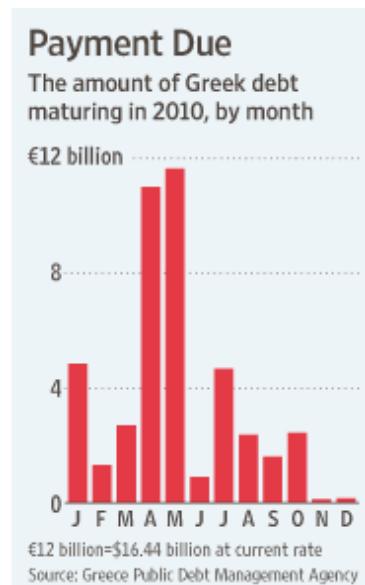
- The European Central Bank (ECB) leaves its lending rate unchanged at 1%

- The Toronto-Dominion Bank reports a 1st. fiscal quarter profit of \$1.3 billion (CAD), citing record revenues in its domestic personal and commercial banking operations, which include TD Canada Trust. The unit accounted for more than half of overall profit, increasing by 23% from the same period a year ago to \$720 million (CAD). Ed Clark, President and Chief Executive Officer, stated: “Our (fiscal) year is off to a great start, after an excellent 1st. quarter that featured record revenue of more than \$5 billion (CAD), stable levels of loan losses and good expense management.”
- A broad range of American retailers, including Nordstrom, Limited Brands, Target, Macy’s and Abercrombie & Fitch to name a few, report solid earnings results for the month of February, despite heavy snowfalls in the U.S. northeast
- Speaking at a private event sponsored by the Canadian Imperial Bank of Commerce in Toronto, Paul Volcker, Chairman of President Obama’s Economic Recovery Advisory Board, warns that structural change is required to set up the U.S. banking system “in a way that provides structural safeguards against excesses,” otherwise a second (financial) crisis is a big risk, because at the moment, “There’s not a supervisor in the world who has enough spine to stand up to these American banks.”
- Greece successfully markets 5 billion euros (\$6.85 billion U.S.) of 10-year notes on a 6.30% yield basis, as the fixed income market applauds (order books were triply oversubscribed), at least temporarily, Greece’s implementation of severe fiscal-austerity measures, including tax increases and benefit cuts, totaling 4.8 billion euros

- Moody’s Investors Service downgraded the debt ratings of seven state-linked companies in Abu Dhabi, citing a lack of formal government backing for the firms. Philipp Lotter, Moody’s Senior Vice President, stated the rating agency “has decided to introduce a moderate distinction between the corporate ratings and that of the sovereign, given that no explicit formal agreement exists obligating the government to support them under all circumstances.”
- The Bank of England leaves its key lending interest rate unchanged at 0.50%, as the outlook for growth the U.K. economy is daunting at the least

FRIDAY, MARCH 5TH

- According to the Congressional Budget Office (CBO), U.S. President Obama’s budget for fiscal 2011 would add \$9.8 trillion (U.S.) to the national debt by the year 2020; \$1.2 trillion (U.S.) more than the White House has forecast. Republican members of the House of Representatives Budget Committee warn: “Interest on the (national) debt becomes one of the largest spending categories in the federal budget and would more than quadruple over the next 10 years, rising from \$209 billion (U.S.) this year to \$916 billion in 2020.”



- In talks between German Chancellor Angela Merkel and Greek Prime Minister George Papandreou in Berlin, no financial support for Greece was announced, but Mr. Papandreou stated: “We need political and moral support and we got that today from the German Government.”

- Canadian Finance Minister Flaherty unveils a transition budget for the fiscal year ending March 31, 2011, promising to eliminate Canada's \$54 billion deficit by the middle of the decade; with an optimistic economic outlook that reduces the size of the public sector, foreign aid and the military, without raising taxes. The Federal Government plans to eliminate \$17.6 billion (CAD) in spending over the next five years and projects the size of the deficit will be \$1.8 billion (CAD) in 2014.  
Regretably, this budget is long on promises but short on specifics. The Federal Government seems to be relying heavily upon steadily improving economic growth, not only, in the country's gross domestic product (GDP), but also, in the GDP of our largest trading partner, the United States; not to mention the global economy. In short, this is an unrealistic budget based on a considerable amount of wishful thinking and reinforces our long-held view that Flaherty will get you nowhere.
- Suren Thieu, an economist with Halifax Bank of Scotland, reports gold bullion has proven to be the best investment over the last decade, rising in value by 277%
- The Labor Department reports U.S. non-farm payrolls declined by 36,000 to a seasonally adjusted 129.5 million in February, while the U.S. unemployment rate remained unchanged at 9.7%
- The Federal Deposit Insurance Corp. closed four U.S. banks in Maryland, Florida, Illinois and Utah, bringing the number of domestic bank failures to 26 this year. American lenders are collapsing at the fastest pace in 17 years amid losses on residential mortgages and commercial real estate loans negotiated near the peak in the real estate market between 2005 and 2007

#### SUNDAY, MARCH 7TH

- Ian Gordon presented "Dow 1,000 Is Not A Silly Number" at the PDAC in Toronto, Canada.

Ian A. Gordon, The Long Wave Analyst

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