



LONGWAVE GROUP



IAN GORDON ECONOMIC FORECASTER & INTERPRETER OF THE KONDRATIEFF CYCLE

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

May 18, 2009

THAT WAS THE WEEK THAT WAS

Monday, May 18th.

- Boston-based State Street Corp. posts a 1st. quarter loss of \$3.7 billion (U.S.) citing unrealized mark-to-market losses in “conduit investments” (read non-bank asset backed commercial paper (ABCP). The company is raising \$1.5 billion (U.S.) via a common stock issue and a separate offering of senior notes, in order to repay \$2 billion (U.S.) in TARP loans from the U.S. Treasury
- Monaco-based hedge fund SRM Global files a motion in Delaware Chancery Court and a civil complaint for an undisclosed amount, against Angelo Mozilo, former CEO of Countrywide Financial; Ken Lewis, President and CEO of Bank of America and several Countrywide executives, alleging misrepresentation and lack of due diligence in the B of A takeover of Countrywide.
No kidding! See Winter Warning – O, What a Tangled Web We Weave When First We Practice To Deceive, October 6, 2008).
- Indian Congress Party coalition parliamentary election victory sends Bombay Sensex stock market index soaring by 17%, as voters issue mandate to Prime Minister Manmohan Singh for economic reform
- U.S. Supreme Court agrees to review the conviction of Lord Conrad Black, presently serving concurrent terms of 5 years for fraud and 6 ½ years for obstruction of justice, in a Florida prison
- U.S. Treasury is preparing legislation for Congress that would authorize the Federal Reserve Board, not only, to act as a reinsurer of municipal and state debt issues, but also, to directly purchase bond issues for the Fed’s own balance sheet
- Alliance Boots, the U.K. pharmaceutical wholesaler and retailer, announces 16,000 job layoffs in its wholesale division, representing 10% of its work force
- American Express announces 4,000 additional job layoffs and reduces spending on marketing and business development, in an attempt to save a further \$800 million (U.S.) this year

Tuesday, May 19th.

- U.S. housing starts declined by 12.8% in April to 458,000 units, compared to a revised decline of 8.5% in March to 510,000 units, previously reported as 525,000 units
- U.S. building permits declined by 3.3% in April to 494,000 following a drop of 7.1% in March
- U.K Consumers Prices Index (CPI) declines by 2.3% in April to a 15-month low
- Morgan Stanley, JP Morgan and Goldman Sachs apply to the U.S. Treasury to repay a combined \$45 billion (U.S.) in TARP (Troubled Asset Relief Program) loans
- ABN Amro announces 5,000 job layoffs from its global work force
- Hewlett Packard announces job layoffs of 2% of its work force over the next 12 months
- Japan’s gross domestic product (GDP) contracted by a record 15.2% in the 1st. quarter, as domestic demand declined and exports weakened, reflecting the steepest drop since 1955. Japan’s economy,



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the second largest in the world, has contracted for a record four consecutive quarters.

Wednesday, May 20th.

- Target Corp. 1st. quarter profit declined to \$522 million (U.S.) from \$602 million (U.S.) in the year earlier period
- Deere & Co. the world's largest manufacturer of farm equipment, reports 2nd. quarter net income fell by 38% to \$472.3 million (U.S.) from \$763.5 million (U.S.) a year earlier. The company cut its profit outlook for 2009 by 26.6%
- Canadian leading economic indicators fell by 1.1% in April
- General Motors to close 264 Canadian auto dealerships
- The World Gold Council, whose members are gold producing companies, reports that global demand for gold rose by 38% during the 1st. quarter. WGC managing director, George Milling-Stanley, says the outlook for the price of gold bullion remains healthy, citing increased investment demand from India and China
- Bank of America raises \$13.5 billion (U.S.) via common stock issue
- Canadian consumer prices were 0.4% higher in April than a year ago, reflecting cheaper energy costs and despite higher food prices
- Singapore's economy contracted by 10.1% in the 1st. quarter and the Ministry of Trade and Industry sees no indication of a turnaround in the near term
- In testimony before the U.S. Senate Banking Committee, Treasury Secretary Geithner stated that *"there are important indications that the financial system is starting to heal"* and that the Treasury would soon be introducing its plan to partner with private investors to purchase billions of dollars in toxic assets from banks.
- General Motors Acceptance Corp. (GMAC) may receive more than \$7 billion (U.S.) in government bailout funds that could escalate to \$14 billion (U.S.)
- The U.S. Federal Reserve Board released the minutes of its Federal Open Market Committee (FOMC) meeting of April 28 - 29, revealing a debate whether the Fed should expand its Treasury purchase program at that time. The FOMC so-called beige book disclosed that *"all members concurred with waiting to see how the economy and financial conditions respond to the policy actions already in place, before deciding whether to adjust the size, or timing of asset purchases."* Also, the minutes stated that the FOMC now expects the U.S. economy to contract by 1.3% - 2% this year and the unemployment rate to reach 9.2% - 9.6% in 2009.
- California voters reject a series of special ballot resolutions targeted to reduce the state's growing budget deficit, currently at \$21 billion (U.S.), *which means unless additional federal government bailout funds are forthcoming, unprecedented, indeed, unpalatable state spending cuts are in the offing.*
- In testimony before the Quebec National Assembly's public finance committee, which is holding



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hearings into the Caisse de Depot's massive \$40 billion (CAD) loss in 2008, former CEO Henri-Paul Rousseau stated that *"the principal problem I had during the five years I managed the Caisse (and I bet you that it will be the same problem for my successor) was the retention, recruitment and training of competent personnel."* Mr. Rousseau said that he lowered the bonus requirements for managers *"so that they wouldn't have an incentive to take (unusual) risks."*

If one of Mr. Rousseau's greatest challenges was the 'training of competent personnel,' then either something was sorely missing in the Caisse's training program, or, the Caisse's personnel weren't so competent in the first place. We believe that it was both, because if your personnel were so competent, why did they need training? Mr. Rousseau exhorts a shocking lack of leadership and behaves as though ignorance were a virtue! Sacre bleu!

Thursday, May 21st.

- Rating agency Standard & Poors (S&P) revises its U.K. sovereign debt outlook from stable to negative, citing that *"even factoring in further fiscal tightening, the U.K.'s net general government debt burden may approach 100% of gross domestic product (GDP) and remain near that level in the medium term"*.

Let the word go forth – the U.K. national debt level is projected to double by 2013, which is incompatible with a 'AAA' credit rating. Investors, gird up your loins while ye may, because the United States of America, with its national debt level currently increasing at the rate of \$6 million (U.S.) per minute, will surely experience a similar debt rating dilemma in due course.

- U.S. initial claims for state unemployment benefits declined by 12,000 to 631,000 in the week ended May 16th. while continuing claims rose to a record 6.662 million in the week ended May 9th.
- U.S. leading economic indicators rose by 1% in April versus a decline of 0.2% in March.
- The Philadelphia Fed Index rose from minus 24.4 in April to minus 22.6 in May
- U.K. retail sales increase by 0.9% in April on a year-over-year basis
- Canadian wholesale sales decline by 0.6% in March

Friday, May 22nd.

- British Airways posts a \$595 million (U.S.) loss for fiscal 2008
- Canadian retail sales rose 0.3% in March
- American International Group (AIG) CEO Edward Liddy announces his resignation to take effect as soon as a successor can be found, while the company proposes a 1 for 20 reverse stock split.
- The Paris-based Organization for Economic Co-operation and Development (OECD) says the global economy may recover this year

And we propose that the moon may be made of cheese.

- In its annual review of the Canadian economy, the New York-based International Monetary Fund (IMF) stated that *"with debt low, Canada would be well positioned to participate in a globally coordinated round of further stimulus ... if the global (economic) environment worsens"*.



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Brilliant! That's Canada's problem, not enough debt! Perhaps, the IMF would have Canada place its sovereign debt 'AAA' credit rating in jeopardy, along with Britain and America. (See Winter Warning – Flaherty Will Get You Nowhere, February 2, 2009).

- The Canadian dollar advances towards \$0.90 (U.S.) as the American Dollar Index Future – Spot Price hovers near a 4 ½ month low of 80. (See Winter Warning – If You Listen Very Intently, You Can Hear the Interest Accrue, March 30, 2009).

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