Monday March 22nd, 2010

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, March 22ND

The Institute for Supply Management (ISM), 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

MONDAY, MARCH 22ND

- Despite an estimate from the Congressional Budget Office (CBO) that President Obama's health care legislation will lower the federal deficit by $143 billion (U.S.) over the next decade, Douglas Holtz-Eakin, director of the CBO until 2005, declared his successor is relying upon "gimmicks and budgetary games" to show a reduction in the deficit. In a weekend New York Times Op-Ed, Mr. Holtz-Eakin argues "Do the math right and the deficit grows by more than a half trillion dollars."

- John Lipsky, Deputy Managing Director of the International Monetary Fund (IMF), observes that advanced economies such as the United Kingdom and the United States are facing an acute challenge in reducing debt loads, a problem which could impede their economic growth. Mr. Lipsky warns: "Maintaining public debt at its post-crisis levels could reduce potential (economic) growth (GDP) in advanced economies by as much as half a percentage point annually." (See also, Winter Warning, January 11, 2010 – It's the Debt, Stupid)

- According to the U.K. Telegraph, after the election (expected May 6th.) two things are required to put public finances on a "sounder and more credible footing: time and imagination. Both major (political) parties are looking to halve the public borrowing share of GDP" over the next 5 years. Imagination is necessary "to address wrenching structural changes in the economy, exposed by the (credit) crisis."

TUESDAY, MARCH 23RD

- In a recent report, the Vancouver-based Fraser Institute concludes stimulus packages by both Canadian federal and provincial governments had a minimal impact on last year's improvement in Canada's gross domestic product (GDP), crediting private investment and increased exports for the (economic) rebound

- Statistics Canada reports its composite index of leading economic indicators rose by 0.8% in February, citing household demand led the increase, along with some improvement in the manufacturing sector

- The National Association of Realtors reports U.S. existing home sales declined by 0.6% in February to a 5.02 million annual rate, from 5.05 million in January

- The Office for National Statistics reports the U.K. annual inflation rate declined to 3% in February from 3.5% in January

- Germany outlines three fundamental preconditions for any Greek financial rescue package, including involvement of the International Monetary Fund (IMF) and a commitment by its European Union (EU) partners to tough new rules to control public debt and deficits within the euro zone – including necessary EU treaty changes. A senior government official in Berlin stated there would be no agreement reached on a specific rescue package at this week's EU summit.

WEDNESDAY, MARCH 24TH

- The U.S. Treasury Department auctions $42 billion (U.S.) of 5-year notes at an average yield of 2.605, higher than the market had anticipated. As a result of the weak investor demand, Treasury bonds sold off in price across the yield curve, with the 10-year maturity increasing 13 basis points in yield to 3.82%, their highest level since July, 2009.

- Citing "significant budgetary underperformance in 2009," Fitch Ratings downgrades Portugal's long term debt rating from 'AA' to 'AA (Low) with a negative outlook. Douglas Renwick, associate director of Fitch's sovereign rating analyst team, states: "A sizeable fiscal shock against a backdrop of relative macroeconomic and structural weaknesses has reduced Portugal's creditworthiness. Prospects for economic recovery are weaker than (euro zone) peers, which will put pressure on its public finances over the medium term."

- The Commerce Department reports U.S. durable goods orders rose by 0.5% in February versus a 3.9% increase in January. Also reported was a 2.2% decline in U.S. new home sales in February, to an annual pace of 308,000 units, citing continuing high unemployment and foreclosure rates.

- In an interview with Bloomberg Radio, London based-Paul Donovan, deputy manager of global economics at UBS Investment Bank commented that Greece will default on its bonds "at some point. I think it's in an impossible situation. Europe has failed to clear its first serious hurdle. If Europe can't solve a small problem like this, how on earth is it going to solve the larger problem, which is the euro doesn't work." (See also Winter Warning, March 15, 2010 – Beware of the Ides of March)

- Bank of Canada Governor Mark Carney acknowledges the country's "core inflation (rate) has been slightly firmer than projected" and emphasized the central bank's commitment to containing price increases. Mr. Carney agreed that some of the increase is the result of "transitory factors" and stated that a "higher level of economic activity" is also playing a role.
  Having been dead wrong during the last half of 2009, by worrying about the "high level of the Canadian dollar" (currently 97.53 cents U.S.) impinging negatively on Canadian exports, can Mr. Carney be on the verge of contradicting himself by raising the Bank Rate prematurely, thus influencing the Canadian dollar higher still? Quelle conundrum!

- Britain's Financial Services Authority (FSA) arrests a seventh person in an insider trading probe that has already entrapped employees of Deutsche Bank AG, Exane SA and hedge fund Moore Capital Management LLC

- Alistair Darling, U.K. Chancellor of the Exchequer, delivers a budget that includes a modest spending package and a projection that Britain will add less to its record debt than previously forecast. The budget holds few surprises, or new measures to tackle debt reduction and mainly acted to set out the Labour Government's approach to an election, expected on May 6th. Labour wants to nurture the fragile British economy through an uncertain recovery by reducing government spending more slowly than the opposition Conservatives would prefer. Investor reaction was swift, as the gilt market sold off sharply.
  Since an election looms as soon as May 6th. the Labour government has chosen to abrogate its responsibility to address debt and deficit issues at this time, basically inviting a debt rating downgrade from 'AAA' by Moody's and other debt rating agencies. While Labour has been forthright to criticize Greece's lack of financial prowess, we suspect that Her Majesty cannot be amused by Her Government's obvious lack of courage on the domestic front.

- In an attempt to reduce its $21 billion (U.S.) deficit and with 11% of California's budget, approximately $8 billion (U.S.), committed to the operation of the State's penal system, which suffers from massive overcrowding, currently housing 167,000 prisoners; the State is planning an early release program for 6,500 inmates deemed a low risk to society, such as parole violators, by next year.

THURSDAY, MARCH 25TH

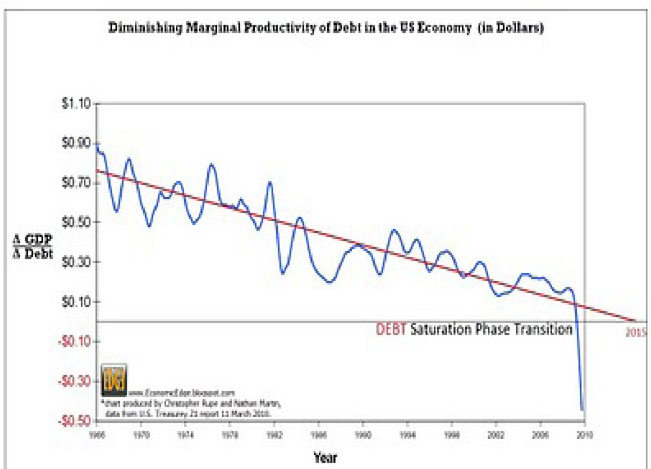
- The Labor Department reports initial claims for state unemployment benefits fell by 14,000 to a seasonally adjusted 442,000 from a revised 456,000 in the week ended March 20th., while continuing claims declined to a seasonally adjusted 4.65 million from 4.7 million in the week ended March 13th.

- The U.S. Treasury Department auctions $32 billion (U.S.) of 7-year notes at an average yield of 3.374%, higher than the market had anticipated. As a result, Treasury note and bond prices declined across the yield curve, with the yield on the 10-year maturity increasing by 5 basis points to 3.90%

- The 16 countries in the euro currency union have reached an agreement for a financial backstop for Greece, that would combine loans from other euro zone governments and the International Monetary Fund (IMF) and would require the unanimous approval of all member countries in order to release the funds

- Testifying before the House Financial Services Committee, Federal Reserve Board Chairman Ben Bernanke stated: " The U.S. economy continues to require the support of accommodative monetary policies. However, we have been working to ensure that we have the tools to reverse, at the appropriate time, the currently very high degree of monetary stimulus. As the (economic) expansion matures, the Federal Reserve will need to begin to tighten monetary conditions to prevent the development of inflationary pressures."

  While this kind of rhetoric makes good grist for the political mill, we suspect that Mr. Bernanke is privately, more worried about the demon deflation than inflation at the moment, which is why the Fed will remain a lagging indicator in the outlook for setting administered interest rate levels



- Unveiling the provincial budget for fiscal 2011, Ontario's Finance Minister Dwight Duncan vows to erase the province's record $21.3 billion (CAD) deficit by fiscal 2018, relying mostly on salary freezes and spending restraint in the public sector

- Dubai unveils plans to restructure $23.5 billion (U.S.) of debt for its flagship conglomerate by recapitalizing Dubai World with $9.5 billion (U.S.) in new funding and proposing repayment to Dubai World creditors over a period of eight years

- Japan adds significantly to its national debt by passing a record 92.3 trillion yen ($1 trillion U.S.) budget package through Parliament, aimed at stimulating economic growth in the long moribund economy

FRIDAY, MARCH 26TH

- The Commerce Department reports a final revision of U.S. gross domestic product (GDP) from +5.9% to +5.5% in the 4th. quarter of 2009

- The Reuters/University of Michigan consumer sentiment index remained unchanged from February to March at a reading of 73.6

- The Obama administration announces adjustments to its $75 billion (U.S.) mortgage modification program, in order to assist a greater number of unemployed homeowners

- According to documents filed in a U.S. Justice Department criminal anti-trust case, units of JP Morgan Chase & Co., Lehman Brothers Holdings, UBS AG, Wachovia, Bank of America, Citigroup, Wells Fargo, General Electric and Societe Generale were among a list of more than a dozen Wall Street firms identified as co-conspirators involved in a conspiracy to sell guaranteed investment contracts and derivatives at below open market yield levels to state and local governments. Is there no integrity left on Wall Street?

- The Canadian Finance Department reports the federal government deficit narrowed to $265 million (CAD) in January, compared to the $3.1 billion (CAD) shortfall recorded in January

- The Commerce Department reports U.S. personal income declined in 42 states in 2009, with the combination of income from wages, dividends, rents, retirement plans and government benefits falling by an average of 1.7%, unadjusted for inflation

- Four U.S. banks are seized by regulators, two in Georgia, one in Florida and one in Arizona, bringing the total number of American bank failures to 41 in 2010

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