

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

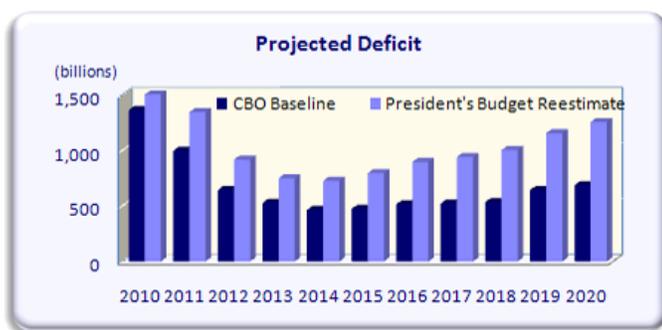


Monday, April 5TH

The National Association of Realtors reports its seasonally adjusted index of U.S. pending home sales rose by 8.2% to a reading of 97.6 in February from a revised level of 90.2 in January

MONDAY, APRIL 5TH

- At 1:33 a.m. (Pacific Time) the U.S. national debt surpasses the \$12.7 trillion level and is increasing at a rate slightly in excess of \$180 million (U.S.) per hour, or, \$4.32 billion (U.S.) per day, according to the Concord Coalition ZFacts.comNationalDebtClock



- Oklahoma City-based Sandridge Energy buys Tulsa-based Arena Resources for \$1.6 billion (U.S.) in cash and stock as the company strives to become one of the largest producers of conventional oil and natural gas in western Texas
- The Institute for Supply Management (ISM) reports its service sector index rose to a reading of 55.4 in March from a level of 53 in February. The service sector includes areas such as health care, retailing and financial services; and is highly dependent upon consumer spending, which powers about 70% of the U.S. economy.

- The Bank of Nova Scotia launches a \$1 billion (U.S.) issue of 10-year notes at a yield of 2.073%, 50 basis points (1/2 of 1%) over comparable U.S. Treasury notes; and \$750 million (U.S.) of 5-year notes at a yield 3.254%, 70 basis points over 5-year U.S. Treasuries
- According to data compiled by Automated Access to Court Electronic Records, U.S. commercial filings for bankruptcy protection increased by 20% to 8,208 in March following 6,655 reported in February
- Moody's Investors Service downgrades Greece's five largest banks by one rating level each and maintains a negative outlook: namely, the National Bank of Greece, EFG Eurobank, Alpha Bank, Piraeus Bank and Emporiki (a subsidiary of France's Credit Agricole), citing "Greece's fiscal challenges will weigh heavily on the economy in the short and medium term."

TUESDAY, APRIL 6TH

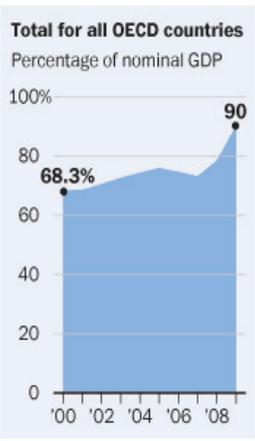
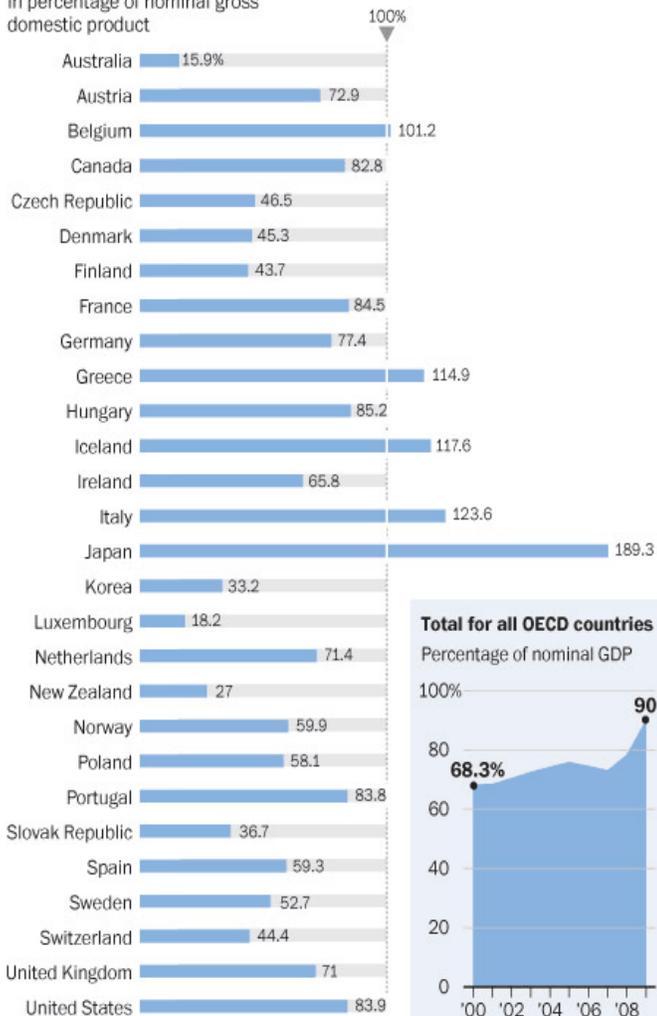
- Ba Shusong, deputy director-general at China's Financial Research Institute, tells the Beijing press that China could widen the daily trading band for the renminbi, but the timing of any (policy) shift would depend upon the pace of economic recovery in both the United States and China

- The Federal Reserve's Open Market Committee (FOMC) releases the minutes of its March 16th. meeting maintaining its pledge to keep administered interest rates low for an "extended period" citing: "While recent (economic) data pointed to a noticeable pickup in the pace of consumer spending during the first quarter, participants (committee members) agreed that household spending going forward was likely to remain constrained by weak labor market conditions, lower housing wealth, tight credit and modest income growth."
  - The Canadian dollar reaches parity with its U.S. counterpart for the first time since July, 2008
  - The Reserve Bank of Australia raises its benchmark lending rate by 25 basis points to 4.25%, citing the economy no longer requires the stimulus of low interest rates with the unemployment rate lower and robust housing sales. The central bank stated that because this year's economic (GDP) growth rate and inflation rate are likely to be near target levels, "it is appropriate for (administered) interest rates to be closer to (their long-term) average".
  - Moody's Investor's Service downgrades Iceland's debt rating outlook to negative from stable, citing concerns about the island nation's external liquidity
  - Computer software maker, CA Inc. announces 1,000 job layoffs, or 7.6% of its work force, as part of a corporate restructuring and consolidation initiative
  - The U.S. Government Accountability Office (GAO) reports the corporate pension plans at General Motors and Chrysler are underfunded by a total of \$17 billion (U.S.) and could fail if the automakers do not return to profitability. Both companies must make significant contributions into the plans within the next five years – \$12.3 billion (U.S.) by General Motors and \$2.6 billion (U.S.) by Chrysler – to reach minimum funding levels. If either company's plan is terminated, the federal government would become liable for benefits payments to hundreds of thousands of retirees. The effect on the Pension Benefit Guaranty Corp. (PBGC) would be "unprecedented," since the agency manages plans with assets totaling \$68.7 billion (U.S.), less than the \$84.5 billion (U.S.) in GM's plan alone. The pension plans cover approximately 650,000 people at General Motors and 250,000 at Chrysler. The PBGC report concluded: "In the event the companies do not return to profitability within a reasonable time frame, Treasury officials (have) said they will consider all commercial options for disposing of the Treasury's equity (holdings), including forcing the companies into liquidation."
  - An independent analysis of California's three big pension funds by Stanford University graduate students has uncovered a shortfall in excess of \$500 billion (U.S.), several times the amount previously reported by the pension funds in 2008
  - In a recent market newsletter, David Rosenberg, economist and strategist at Gluskin Sheff, warns: "the U.S. labour market still remains in the grips of a serious inflationary undertow. As long as excess supply dominates in the jobs market, expect the downward trend in wages to persist. So, despite the positive headlines on non-farm payrolls, don't think for a second that the Fed is not aware of, or insensitive to, the deflationary pressure that continue to build in the labour market. Against this backdrop, any premature tightening (of monetary policy) by the central bank, or a sustained backup in bond yields, is simply out of the question."
- WEDNESDAY, APRIL 7TH
- In an introductory letter to Goldman Sachs Annual Report for 2009, Chief Executive Officer Lloyd Blankfein and President Gary Cohn state: "Although Goldman Sachs held various positions in residential mortgage-related products in 2007, our short positions were not a bet against our clients." Deny, deny, deny! (See also Winter Warning, February 15, 2010 – For the Love of Money and Winter Warning, March 29, 2010 – A Rolling Stone Gathers No Moss)
  - Statistics Canada reports Canadian building permits declined by 0.5% in February to \$5.7 billion (CAD), citing fewer plans to construct multiple-unit dwellings
  - General Motors Corp. reports a loss of \$4.3 billion (U.S.) in the second half of 2009, citing a \$2.6 billion (U.S.) pre-tax charge related to the medical plan the company provides for United Auto Workers retirees and \$1.3 billion (U.S.) of foreign currency losses. Chief Financial Officer Chris Liddell states the company still has a chance to return to profitability this year and remains committed to repaying by June, the \$60 billion (U.S.) in bailout money it owes to the Canadian, Ontario and U.S. governments.
  - Greece's Finance Minister, George Papaconstantinou, announces Greek banks have asked for permission to access the remaining part of a 28 billion euro state support package first agreed upon in 2008
  - As a result of a late short-covering rally, the U.S. Treasury auctions \$21 billion (U.S.) of 10-year bonds at an average yield of 3.90%

- In a speech to the Dallas Regional Chamber of Commerce, Federal Reserve Board Chairman, Ben Bernanke, characterized the U.S. budget deficit as the biggest long-term economic challenge the nation faces, even as he acknowledged that reducing the deficit immediately, would be “neither practical or advisable” given the weak state of the economy. “To avoid large and unsustainable budget deficits, the nation will ultimately have to choose among higher taxes, changes to entitlement programs such as Social Security and Medicare, less spending on U.S. Departments from Education to Defense, or some combination of the above.”

**General government gross debt**

In percentage of nominal gross domestic product



- Moody’s Investors Service downgrades the credit rating of the City of Los Angeles to Aa3 from Aa2, warning that further downgrades could be in the offing. In reference to the City’s \$200 million (U.S.)-plus budget deficit, Moody’s commented: “While we believe that it is highly unlikely that the City would fail to take the necessary steps to shore up its general fund liquidity, failure to do so would put significant downward pressure on the bond rating.”
- Reuters News Agency reports U.S. White House economic advisor Paul Volcker suggesting the United States should consider raising taxes to help bring deficits under control and may need to consider a European-style value-added tax (VAT) While obviously necessary, we can’t imagine anything more politically unacceptable to the American electorate at this juncture.
- The Labor Department reports the number of job openings in the U.S. declined by 131,000 to 2.72 million in February, citing employers will be slow to increase staff even as layoffs subside. Maxwell Clarke, chief economist at IDEAglobal in New York observed: “Conditions in the labor market will continue to be tenuous, as firms look for a pickup in sales activity before increasing employment opportunities.”

**THURSDAY, APRIL 8TH**

- The Labor Department reports initial claims for state unemployment benefits increased by 18,000 to 460,000 in the week ended April 3rd. while continuing claims declined by 131,000 to 4.55 million in the week ended March 27th.
- According to a survey by Royal LePage Real Estate Services, prices for all key housing types increased by more than 10% across Canada in the first quarter. In Vancouver and Toronto, where house price increases were even more sizeable, Phil Soper, LePage president and chief executive officer commented: “the dramatic unit sales fluctuations exhibit a significant degree of market irrationality: inordinately fearful when faced with poorer markets and overly enthusiastic when the tables turned.”
- The Bank of England maintains its key lending rate unchanged at 0.5%, while the European Central Bank (ECB) keeps its benchmark lending rate at 1%

FRIDAY, APRIL 9TH

- Eurostat, the European Union's statistics office reports retail sales in the euro zone declined by 0.6% in February, compared to January
- Investor worries mount concerning the health of Greece's banking system, raising the spectre of disorderly outflow of deposits. Meanwhile, Greek society is not co-operating with the government's fiscal adjustment plan and the European Union / International Monetary Fund external financing package is being criticized for lack of clarity. Consequently, this week the yield on 10-year Greek bonds has soared to 7.50% while yields in the 2-year area of the curve have touched 8%. Greece must refinance 8.5 billion euros of maturing debt by May 19th. – a daunting task.
- The Basel, Switzerland-based Bank for International settlements (BIS) warns: "The aftermath of the financial crisis is poised to bring a simmering fiscal problem in industrial economies to the boiling point. When will (fixed-income) investors start demanding a much higher compensation for holding increasingly large amounts of public debt? Rapidly ageing populations present a number of countries with the prospect of enormous future (entitlement and pension) costs that are not wholly recognized in current budget projections." Moreover, when will the U.K., France and the U.S. lose their coveted 'AAA' credit ratings?
- U.S. retailers report strong year-over-year same store sales in March

**Same-Store Sales**

Kohl's	▲ 23%
Saks	▲ 13
Target	▲ 10
Costco*	▲ 2
Hot Topic	▼ 7.6

\*U.S. sales, excluding gas  
Source: the companies

- The China Association of Automobile Manufacturers reports passenger car sales increased by 63% to 1.26 million vehicles in March from a year ago, citing strong demand driven by tax cuts and government subsidies
- Fitch Ratings downgrades Greece's sovereign debt rating to 'BBB' (Low) from 'BBB' (High), citing "an ongoing uncertainty about the government's financing strategy in the context of increased capital market volatility. Pressures on the banking system underline the adverse spill-over from sovereign risk concerns on the wider economy, while contingent liabilities from the banking sector will increase as the government provides banks with increased guaranteed funding."
- The Bulgarian government cancels plans to apply for pre-euro ERM-2 membership status because of a larger than expected 2009 fiscal deficit, caused by procurement deals not budgeted by the previous socialist government
- Statistics Canada reports the country's economy created 17,900 jobs in March, citing gains in part-time jobs which outweighed full-time job losses. Meanwhile, Canada's unemployment rate remained unchanged at 8.2%.



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