

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

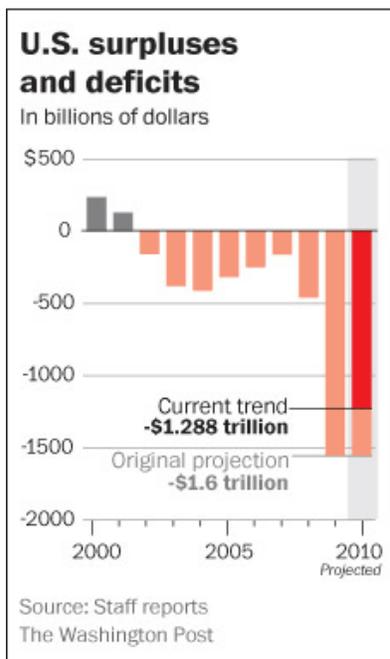


Monday, April 12TH

Euro zone members make a commitment to provide, if requested, up to 30 billion euros in loans to Greece over the next year

MONDAY, APRIL 12TH

- China reports a \$7.2 billion (U.S.) trade deficit in March, the first in six years
- In its monthly budget statement, the U.S. Treasury reports a government deficit of \$65.39 billion (U.S.) in March, a record 18th. consecutive monthly deficit; making the deficit for the first half of the 2010 fiscal year total \$716.99 billion (U.S.) or, \$1.434 trillion (U.S.) on an annualized basis



- State-owned China Petroleum & Chemical Corp. (Sinopec) agrees to pay \$4.65 billion (U.S.) for a 9% stake in Syncrude, owned by Conoco Phillips, so U.S. and Canadian government approval is required. This investment would give Sinopec a veto over the crucial decision of whether Syncrude should refine more oil in Alberta, or export raw bitumen for processing elsewhere.
- The People's Bank of China reports the country's foreign exchange reserves increased to \$2.447 trillion (U.S.) at the end of March

TUESDAY, APRIL 13TH

- The Commerce Department reports the U.S. trade deficit widened by 7.4% to \$39.7 billion (U.S.) in February from a revised \$37 billion (U.S.) in January
- Chip maker Intel Corp. reports 1st. quarter net income of \$2.4 billion (U.S.), quadrupling its earnings from the same period a year ago and citing increased corporate spending on computer upgrades and technology
- The Royal Bank of Canada raises its 5-year residential mortgage rate by 25 basis points to 6.10%, citing an increasing cost of funds
- Statistics Canada reports the country's trade surplus widened to \$1.4 billion (CAD) in February from \$754 million (CAD) in January, citing rising exports of automobiles, metal ores and fertilizers

- China's Ministry of Commerce imposes 5-year duties on imports from the U.S. and Russia of a common type of electrical steel used in the energy sector
- Howard Schultz, founder and CEO of global coffee retailer Starbucks, announces the company's expansion plans to open "thousands of shops" across China from the current 376 outlets
- According to Credit Sights Inc., a New York-based research firm, Bank of America, JP Morgan Chase and Wells Fargo may have to provide for an additional \$30 billion (U.S.) of home-equity loan losses, an amount almost equal to analysts' estimates of net profit at those banks this year
- Standard & Poors downgrades Sun Life's credit rating to 'A' from 'A' (High) for the operating company; and to 'AA' (Low) from 'AA' for the holding company, while maintaining a negative outlook
- The Labor Department reports the U.S. consumer price index rose by 0.1% in March and the core rate (excluding food and energy) remained unchanged
- In a new report, the International Monetary Fund (IMF) predicts the average unemployment rate among 14 of the world's advanced economies, including Canada, will be about 9% at the end of 2011, suggesting that central banks should keep administered interest rates low and that governments should be ready to spend (more) on job creation. The IMF report further stated: "Because high unemployment can quickly become a structural problem, this could lead to serious political and social challenges."
- The Nationwide Building Society reports its U.K. consumer confidence index declined to a reading of 72 in March from 81 in February

#### WEDNESDAY, APRIL 14TH

- In testimony before the Joint Economic Committee of Congress, U.S. Federal Reserve Chairman Ben Bernanke comments: "Significant restraints on the pace of the (economic) recovery remain, including weakness in both residential and non-residential construction and the poor fiscal condition of many state and local governments. On balance, the incoming (economic) data suggest that growth in private final demand will be sufficient to promote a moderate economic recovery in coming quarters." Mr. Bernanke also noted that a credible plan to pare the deficit could provide the U.S. economy with benefits in the near term. However, he warned: "Addressing the country's fiscal problems will require difficult choices, but postponing them will only make them more difficult." At Long Wave Analytics, we foresee either an enormous American "national debt civil war" erupting after the November mid-term elections, as the Obama administration attempts to reduce the government's commitments for entitlement programs, such as Medicare, Medicaid and Social Security; while trying to garner support for higher levels of taxation, or new taxes such as a value added tax (VAT); or, an election outcome resulting in political gridlock. Either way, it's a lose – lose situation.
- The Commerce Department reports U.S. retail sales rose by 1.6% in March, citing improving automobile sales
- According to Reuters, China's gross domestic product (GDP) grew by 11.9% in the 1st. quarter
- Data released by the U.S. Treasury and the Housing and Urban Development Department reveals that 1,380 modified mortgage loans were terminated in March and an estimated seven million U.S. households are behind on their mortgage payments
- JP Morgan Chase reports a 1st. quarter net profit of \$3.3 billion (U.S.), citing hefty profits in investment banking operations
- In an interview on the Business News Network (BNN), Long Wave Analytics President Ian Gordon warns that "equities are near the peak of their recent rally." The Dow Jones Industrial Average (DJIA) will reflect "a vicious bear market in stocks" in the coming months and "I'm expecting a strong bull market in gold. I'm expecting an economic depression worse than it was in the 1930s because the debt, which is international in scope, is worse and people trust gold as money."

#### THURSDAY, APRIL 15TH

- The Labor Department reports initial claims for state unemployment benefits increased by 24,000 to 484,000 in the week ended April, 10th. while continuing claims rose by 70,000 to 4.64 million
- U.S. industrial production rose by 0.9% in March, following a 0.2% increase in February
- The New York State Manufacturing Index rose to a reading of 31.9 in April, compared to a level of 22.9 in March

- The Philadelphia general economic index rose to a reading of 20.2 in April, following a level of 18.9 in March
- Greek Prime Minister George Papandreou requests an April 19th. meeting with the European Union, the International Monetary Fund (IMF) and the European Central Bank
- February data from the Canadian Real Estate Association reveals new listings increased to 97,663 units in March; while 49,256 were sold and the national average price reached \$340,920 (CAD)
- The National Association of Homebuilders' monthly gauge of confidence in U.S. new home sales rose to a reading of 19 from an unrevised level of 15 in March

#### FRIDAY, APRIL 16TH

- Oakland, California-based Innovative Bank is closed by the Federal Deposit Insurance Corporation (FDIC), marking the 48th. U.S. bank failure in 2010
- Statistics Canada reports Canadian manufacturing sales rose by 0.1% in February
- RealtyTrac reports residential foreclosures reached a new high of 367,056 in March, up 8% on a year-over-year basis. Banks also took possession of a record 260,000 properties in the 1st. quarter, up 35% from a year ago. Nevada, Arizona, Florida and California continue to lead the U.S. in foreclosures. In Nevada, one in every 33 households received a foreclosure notice in the 1st. quarter – four times the national average. RealtyTrac senior vice president Rick Sharga commented: "Right now, we're on pace to see more than one million bank repossessions this year and we expect the pace to accelerate as the year progresses."
- The Commerce Department reports U.S. housing construction rose by 1.6% in March, to a seasonally adjusted annual rate of 626,000
- In its 2009 annual report, Whitehall Street International, Goldman Sachs' international real estate investment fund, reveals it has lost almost all of its \$1.8 billion (U.S.) of equity as property investments in Germany, Japan and the U.S. declined in value. The fund incurred a loss of 98 cents(U.S.) on the dollar, which for Goldman, as the fund's largest investor, meant a loss of \$436 million (U.S.).

- In his Globe Investor column entitled "Falling Money Supply Creates Downturn Fears," Martin Mittelstaedt quotes Long Wave Analytics President Ian Gordon's warning: "We're moving into deflation. I'm absolutely convinced that's what we're going into."
- Morgan Stanley warns that the Greek debt crisis is igniting a chain of events that may prompt German withdrawal from the euro zone. In a note to clients, research director Joachim Fels states: "The backstop package for Greece and the European Central Bank's reversal on its collateral rules, set a bad precedent for other euro area states and make it more likely that the euro area degenerates into a zone of fiscal profligacy, currency weakness and higher inflationary pressures over time." Mr. Fels notes while a bailout for Greece may be necessary to avoid a European financial crisis, he warns that it also "sows the seeds for potentially, even bigger problems further down the road."
- While Portugal does not face an imminent funding crisis, the European Central Bank pressures Lisbon to make additional spending cuts to reduce its budget deficit, which was 9.3% of its gross domestic product (GDP) in 2009, even further
- Andrew Maguire, a former Goldman Sachs trader now working at the London Bullion Market Association, alleges gold and silver price manipulation: "JP Morgan acts as an agent for the Federal Reserve to halt the rise of gold and silver against the U.S. dollar. HSBC conducts an ongoing manipulative, concentrated position in gold; and silver is much easier to manipulate due to its much smaller market size."
- U.S. Securities and Exchange Commission charges Goldman Sachs with fraud

So now we bear witness to the U.S. Securities and Exchange Commission filing a 22 page, \$1 billion plus (U.S.) civil securities fraud action against Goldman Sachs & Co. and employee Fabrice Tourre, alleging "materially misleading statements and omissions in connection with a synthetic collateralized debt obligation (CDO) structured and marketed to investors. This synthetic CDO, ABACUS 2007-AC1, was tied to the performance of sub-prime residential mortgage-backed securities (RMBS) and was structured and marketed by Goldman Sachs in early 2007, when the United States housing market and related securities were beginning to show signs of distress. Synthetic CDOs like ABACUS 2007-AC1 contributed to the recent financial crisis by magnifying losses associated with the downturn in the United States housing market."

All of the above begs the following questions:

- 1) Mr. Fabrice Tourre (self-dubbed the 'Fabulous Fab') Goldman Sachs' former Vice President, but now an Executive Director of Goldman Sachs International based in London, is only 31 years old and likely has less than 10 years experience in the investment industry. Sadly, it would appear that the 'fabulous one' has developed an ego as big as the northern hemisphere. At the time of his employment, why didn't some Goldman manager tell him that whenever he felt like his ego was getting the better of him, he must slam it into his bottom desk drawer and lock it?
- 2) Were Goldman's internal compliance officers out-of-the-office on four-year sabbaticals during the period of 2004 – 2008?
- 3) Were members of Goldman's corporate finance department also on extended leaves-of-absence during that time?
- 4) Having refused to rate Canadian asset-backed commercial paper (ABCP) for at least 20 years for valid reasons, why would the American debt rating agencies ascribe 'AAA' credit ratings to U.S. sub-prime mortgage-backed securities?

5) With respect to the U.S. Securities and Exchange Commission, this writer is literally choking on the phrase 'better late than never' because we know from former SEC Chairman Harvey Pitt that the commission was just laced with lawyers at the time, of whom none would have any meaningful experience working in the investment industry?

6) With additional respect to the SEC, we learn from Harry Markopolos, author of "No One Would Listen" – the Bernie Madoff fraud – just how incompetent the SEC was earlier in this decade. One of Mr. Markopolos' recommendations to the SEC is why not "hire experienced leaders ... people who know what they're doing ... people with financial industry experience?"

7) Where are Goldman's highly touted business ethics? Whither the firm's integrity?

(See also Winter Warnings, February 15, 2010 – For The Love of Money and March 29, 2010 – A Rolling Stone Gathers No Moss)

Ian A. Gordon, The Long Wave Analyst

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