Monday April 26th, 2010

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, April 26TH

The Royal Bank of Canada raises all mortgage rates by 15 basis points, taking its 5-year closed rate to 6.25%

MONDAY, APRIL 26TH

- Senator Carl Levin, Chairman of the Permanent Sub-Committee on Investigations releases e-mails and other documents which reveal "Goldman (Sachs) repeatedly put its own interest and profit ahead of the interests of its clients." Senator Levin disclosed that Goldman made an estimated $3.7 billion (U.S.) in 2007 by placing "heavy bets" against mortgage-linked securities, including some (that) it (had) created. Senator Levin further commented: "To sell to customers at the same time you're betting against what you're selling – we think it's not uncommon and we think it ought to end."

- The Bank of Korea reports South Korea's gross domestic product (GDP) rose by a seasonally adjusted 1.8% in the 1st. quarter, citing: "Manufacturing turned to growth from the previous quarter; plus private consumption and investments also continued expansion."

- The Bank of Ireland plans to raise 3.4 billion euros in an attempt to limit the percentage of state ownership. The bank announced that it would raise 1.9 billion euros via a rights issue, another 500 million euros in a private placement with institutional investors and 1 billion euros by converting a portion of the government's preference shares into ordinary shares. The bank stated that these financings would cap the government's shareholding at 36%. Also, the bank stated that it will offer bondholders the opportunity to exchange debt for equity.

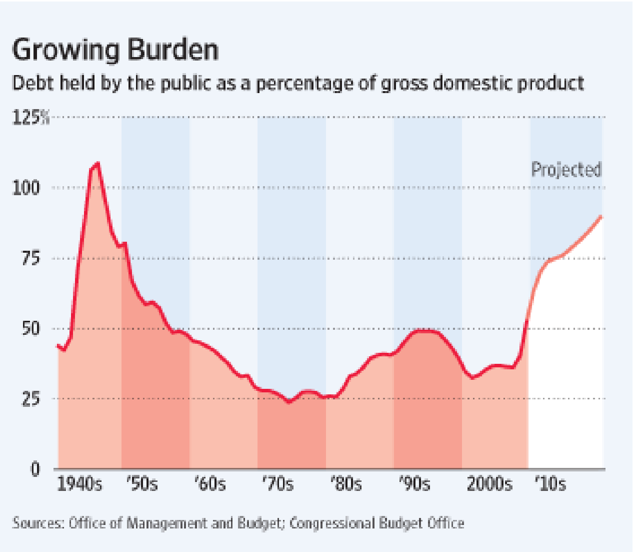
- According to the Wall Street Journal, while U.S. cities and towns struggle with budget problems, fixed income investors are discovering a new way to profit from their misery: by buying derivatives that essentially wager that municipalities will default. Credit default swaps are basically insurance contracts that allow investors to sell short countless municipal bonds; as well as the debt of at least a dozen states, including California, Michigan and New York.

- Describing his country as "a sinking ship," Greece's prime minister, George Papandreou, formally requested an international bailout package on Friday, creating the biggest test to date for the European Union: "We drew up a plan, we took difficult and painful measures, but the markets did not respond (positively)." Indeed, the yield on outstanding 2-year Greek bonds is approaching 15%, while the yield on 5-year Greek bonds is threatening 9.5%. Meanwhile, German support for a Greek aid package remains uncertain, as leading members of Germany's Christian Social Union (CSU), sister party in Bavaria to Chancellor Angela Merkel's Christian Democrats have stated that Greece should be forced out of the euro zone. Leading CSU Member of Parliament Hans-Peter Friedrich commented: "Greece has not only a liquidity problem, but also, a fundamental growth and structural problem." Mr. Friedrich further stated that this should prompt Greek politicians to "seriously consider leaving the euro zone." Many investors are convinced that Athens, facing years of fiscal austerity and potential economic stagnation, will ultimately be required to renegotiate terms with lenders.

- In an opinion/editorial in the Wall Street Journal regarding the U.S. national debt, reporter Gerald Seib suggests the Republican and Democratic political parties acknowledge their combined culpability over the decades, in causing the national debt to reach its present level, rapidly approaching $13 trillion (U.S.); as an initial step to dealing with the debt and deficit problem. Mr. Seib asserts: "It would amount to progress if both parties, via the bipartisan National Commission on Fiscal Responsibility and Reform, agreed that two big steps can't be avoided:

  1) The tax system has to be changed. The U.S. doesn't have a (tax) system that can fund the government (that) the country wants. The Tax Foundation says the levies paid by the top 1% of taxpayers, now exceed those paid by all of those in the bottom 95%.

  2) Americans have to change how they think about retirement. The United States is unable to really afford our Social Security, Medicare, (Medicaid) and long-term care commitments … this is the hard reality, requiring a new and non-politicized national discussion."



At Longwave Analytics, we agree that the above steps would constitute noble, initial attempts to address the U.S. national debt problem. However, given the high level of political polarization currently prevalent in America, we believe these suggestions reflect a considerable amount of naivety; as well as constitute a high degree of wishful thinking. (See also Winter Warning, January 11, 2010 – It's The Debt, Stupid)

- Long Wave Analytics President Ian Gordon is interviewed by Gary Goldberg on the Business Talk Radio Network program Money Matters.
  http://www.businesstalkradio.net/weekday_host/Archives/mm.shtml to listen.

TUESDAY, APRIL 27TH

- The Conference Board's U.S. consumer confidence index rose to a reading of 57.9 in April from a level of 52.3 in March

- Standard & Poors (S&P) downgrades Portugal's sovereign debt rating to 'A' (Low) from 'A' (High) while maintaining a negative outlook; fueling concerns that Portugal is on the same trajectory as its eastern neighbour on the Aegean Sea coast, despite its more solid fiscal position

- Standard & Poors downgrades Greece's sovereign debt rating to 'BB' (High) from 'BBB' (High), effectively to "junk status," citing the government's policy options are narrowing due to weak economic growth prospects. S&P credit analyst Marko Mrsnik commented: "The downgrade results from our updated assessment of the political, economic and budgetary conditions that the Greek government faces in its efforts to put the public debt burden onto a sustained downward trajectory."

- Ford Motor Co. reports a $2.1 billion (U.S.) profit in the 1st. quarter, compared to a loss of $1.4 billion (U.S.) in the same period a year ago, citing rising U.S. sales and increased market share

- The S&P/Case-Shiller index tracking home prices across 20 U.S. metropolitan areas declined by 0.9% during the December to February period, as all cities posted price declines except San Diego

- U.S. Federal Reserve Chairman Ben Bernanke urges the National Commission on Fiscal Responsibility to formulate a plan to reduce the budget deficit soon, commencing with a study on how the U.S. tax system could be changed, in order to raise more government revenue
  With the U.S. national debt rapidly approaching $13 trillion, Mr. Bernanke could issue monthly warnings on this initiative for the rest of 2010; but nothing new will be forthcoming on this subject until after the U.S. mid-term elections in November. (See also The Week That Was, April 14, 2010)

- The World Gold Council announces that the International Monetary Fund (IMF) sold 5.6 tonnes of gold bullion in February, as part of the second phase of its gold marketing program

- According to the National Review, the chief actuary for the U.S. Medicare program has released a memorandum providing cost estimates for the final health legislation, passed by Congress and signed by the President. The actuary computed that the legislation will increase American health care costs (not reduce them) by about $300 billion (U.S.) over a decade. The actuary also determined that the financial incentives in the bill will lead many employers to stop offering (medical) coverage altogether. That means as many as 14 million Americans with job-based insurance today, will lose it. Moreover, he estimates that the cuts in the Medicare Advantage (program) will reduce coverage for 7 million people.

WEDNESDAY, APRIL 28TH

- Following a scheduled meeting of the Federal Reserve Open Market Committee (FOMC), it was announced that the U.S. Fed Funds rate would remain unchanged in a range of 0% - 0.25%. In its statement, the FOMC reiterated it "continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the Federal Funds rate for an extended period."

- Standard & Poors (S&P) downgrades Spain's sovereign debt rating to 'AA' from 'AA' (High), citing Spain's growth prospects continue to be weak post the collapse of a credit-fueled housing and construction bubble. S&P analyst Marko Mrsnik commented: "We now believe that the Spanish economy's shift away from credit-fueled economic growth is likely to result in a more protracted period of sluggish (economic) activity, than we previously assumed."

- Following a meeting with Dominique Strauss-Kahn, managing director of the International Monetary Fund (IMF) and Jean-Claude Trichet, president of the European Central Bank; German parliamentarians Jurgen Trittin and Thomas Opperman revealed that Greece will need financial assistance amounting to 100 billion euros to 120 billion euros over the next three years. Apparently, the 45 billion euros currently proposed as a rescue package of loans from the IMF and other members of the euro zone, is only enough for the first year of support. In the meantime, the Greek 2-year bond yield soared past 20% while the yield for 10-year bonds exceeded 10%.

- Toronto-based Barrick Gold, the world's largest gold producer, reports a net profit of $758 million (U.S.) in the 1st. quarter, while output rose by 19% to 2.08 million ounces and production costs declined by 9% to $442 (U.S.) per ounce

THURSDAY, APRIL 29TH

- The Labor Department reports jobless claims for state unemployment benefits declined by 11,000 to 448,000 in the week ended April 24th. The number of continuing claims (those drawn by workers for more than one week) declined by 18,000 to 4.645 million in the week ended April 17th. from the preceding week's revised level of 4.663 million.

- Italy auctions 3 billion euros of 3-year bonds and 3.5 billion euros of 10-year bonds at yield levels which are lower than those prevailing on outstanding issues trading in the secondary market. Chiara Cremonesi, a fixed income strategist at UniCredit commented: "The auction result dismisses investors' fears over (debt) contagion effects on Italy. It also confirms our view that the better economic, fiscal and rating outlook for Italy puts it in a favourable position among the periphery (euro zone) group."

- Exxon Mobil, America's largest oil company, reports a 38% increase in earnings to $6.3 billion (U.S.) in the 1st. quarter, despite allotting $6.9 billion (U.S.) for capital expenditures and $4 billion (U.S.) for dividend payments; as well as common share open market purchases

- According to Bloomberg News, Neil Barofsky, Special Inspector General for the Troubled Asset Relief Program (SIGTARP), in a series of reports, interviews and congressional hearings, has leveled criticism on the U.S. Treasury Department's operation of the TARP program. Mr. Barofsky has also criticized U.S. Treasury Secretary Timothy Geithner in both reports and in congressional testimony, for his handling of the process by which insurance giant American International Group (AIG) was saved from insolvency in 2008, when Mr. Geithner was President of the Federal Reserve Bank of New York. In Senate Finance Committee testimony on April 20th. Mr. Barofsky stated SIGTARP would investigate seven AIG-linked mortgage related security transactions because the secrecy that enveloped those deals was unwarranted. In his probe of an alleged New York Fed cover-up, Mr. Barofsky related: "I've been in contact with the Securities and Exchange Commission (SEC) and we're going to coordinate with them, but we're going to lead the investigation; which could result in criminal or civil charges."

FRIDAY, APRIL 30TH

- The Federal Deposit Insurance Corp. (FDIC) closes two banks in Missouri, three in Puerto Rico, one in Michigan and one in Washington State bringing the total number of U.S. bank failures to 64 in the first four months of 2010. These seven bank failures, which had combined assets of $25.8 billion (U.S.) and deposits of $19.6 billion (U.S.), cost the FDIC an estimated $7.33 billion (U.S.) Prior to this week, the FDIC's estimated losses from 57 bank failures in 2010 stood at about $8.6 billion (U.S.) and this week's failures almost doubled that figure to $15.93 billion (U.S.). Alarmingly, these failures reflect continuing, deeply-rooted problems in the banking sector that appear to be worsening over time. According to the Associated Press, the FDIC's deposit insurance fund "fell into the red last year hitting a $20.9 billion (U.S.) deficit as at December 31, 2009." Adding this year's losses to April 30th.the fund's deficit has increased to at least $36.8 billion (U.S.). Moreover, the FDIC has a huge exposure for 'worse-than-expected' losses on $165 billion (U.S.) of assets taken over through the acquisition of banks.

- According to unnamed, but informed sources, the U.S. Justice Department in New York is investigating mortgage backed securities transactions by Goldman Sachs to determine whether to pursue a criminal fraud case

- The Commerce Department reports an initial estimate of a 3.2% expansion of the U.S. gross domestic product (GDP) in the 1st. quarter

- The Canadian federal government reports a budget deficit of $90 million (CAD) in February, bringing the total deficit for the first 11 months of the 2010 fiscal year ended March 31st.to $40.5 billion (CAD).

- The price of gold bullion climbs to a 2010 high of $1,180 (U.S.) an ounce, as investors continue to not only, embrace the metal's safe-haven properties, but also, reflect their nervousness over euro zone sovereign debt problems

- According to Inside Mortgage Finance, the U.S. government's massive share of the nation's mortgage market grew even larger during the 1st. quarter of 2010. Government-owned housing financing giants Fannie Mae and Freddie Mac, backed 96.5% of all home loans during the 1st. quarter, up from 90% in 2009

- In an updated report from the U.S. Treasury, China remains the largest holder of U.S. government debt, holding $877.5 billion (U.S.) of Treasury securities as at February 28, 2010; with Japan holding $768.5 billion (U.S.) and the United Kingdom holding $233.5 billion (U.S.)

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