

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



Monday, May 3RD

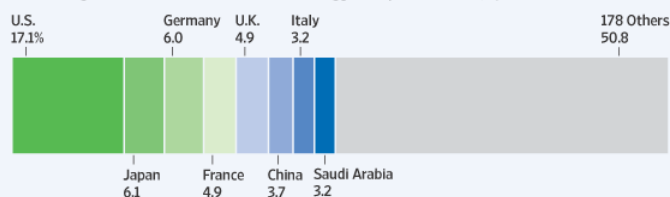
The Tempe, Arizona-based Institute for Supply Management's manufacturing index rose to a reading of 60.4 in April from a level of 59.6 in March

MONDAY, MAY 3RD

- U.S. automotive sales increased by 20% in April from the same month a year ago, to 11.5 million vehicles on a seasonally adjusted annual rate basis. Canadian car sales posted a 4% gain, as double-digit declines at General Motors Canada and Toyota Canada offset market share increases by Ford Motor and Hyundai Motor. Ford sales climbed 24% in Canada and 25% in the U.S. while Hyundai Canada sales increased by 16% and Hyundai USA sales soared by 30%.
- United Airlines and Continental Airlines announce a merger to form the world's largest airline, in a deal worth about \$3 billion (U.S.) The new airline would supersede Delta Air lines in size and boast flights extending from Shanghai to South America. The United name will continue, but the airplanes will display the Continental colours and logo.
- According to a report released by the U.S. Senate Subcommittee on Investigations, an inherent and dangerous conflict of interest situation was fostered by the major U.S. banks as they badgered and cajoled credit rating agencies to award a 'AAA' debt rating to all sorts of undeserving investment products marketed particularly between 2005 and 2008. Subcommittee Chairman Senator Carl Levin remarked: "Moody's and the other rating agencies (Fitch and Standard & Poors) allowed Wall Street to influence their analysis and their independence. They did it for the money."
- In a quarterly survey released by the Federal Reserve covering the February to April period, most U.S. banks are reporting weaker demand for loans from both consumers and businesses. The survey found that loan demand declined further for home loans designed for the most creditworthy customers and for business loans.
- Greece has finally secured a 110 billion euro (\$150 billion U.S.) bailout package designed to shield it from debt speculators and restore confidence in the falling euro. The historic deal among finance ministers of the 16 nations in the currency union, the first such aid package for a member since the euro zone was established in 1999, will provide the initial loan tranche prior to May 19th. when Greece must refinance a maturing bond issue. The European Union (EU) will contribute 80 billion euros of the total, at an interest rate close to 5% and the International Monetary Fund (IMF) will provide the balance. Among the concerns are whether the Greek government can successfully implement another round of extremely harsh austerity measures, primarily targeted on its public sector, whose main labour union has called for a two-day strike commencing tomorrow. Greek Prime Minister George Papandreou declared to a televised cabinet meeting: "Our priority is to avoid bankruptcy and that is a red line that cannot be crossed."

Last-Resort Lenders

The IMF's largest shareholders kick in the most to loans, though several factors can lead to members contributing more or less than their stake would suggest. Top shareholders, by stake size:



Source: IMF

TUESDAY, MAY 4TH

- The National Association of Realtors reports the U.S. pending home sales index rose by a seasonally adjusted 5.3% in March, citing continued support from the first time home buyer tax credit of \$8,000 (U.S.) which expired on April 30th.
- MasterCard Inc. reports a 1st. quarter profit of \$455 million (U.S.) on revenue of \$1.3 billion (U.S.), citing a 5% growth rate in the number of transactions processed and an 11% increase in international volumes
- According to state officials, California tax revenues lagged projections by about 30%, or \$3 billion (U.S.) in April, erasing improvements recorded in each of the four previous months. California is faced with a deficit of \$18.6 billion (U.S.), approximately 20% of its overall budget. However, the State has not only, cut services severely, but also, raised income, sales and vehicle taxes temporarily. Additional cuts in government services, such as education, health care and programs for the elderly, could be in the offing.
- The Reserve Bank of Australia raises its key lending rate by 25 basis points to 4.5%, citing persistent demand from China for its iron ore and other mineral resources. In prepared statement, central bank governor Glenn Stevens remarked: "Australia's terms of trade are rising by more than earlier expected and this year will probably regain the peak seen in 2008. This will add to incomes and foster a build-up in investment in the resources sector. Moreover, the inflation rate now appears likely to be in the upper half of the target zone over the coming year."
- The most recent survey by the Conference Board of Canada reveals the business confidence index declined to a reading of 95.6 in March from a level of 95.0 in February, citing poor capacity utilization due to weak demand

- In reference to the Securities & Exchange Commission's civil fraud allegations against Goldman Sachs, Rolling Stone's Matt Taibbi comments: "There is more fraud out there and everyone knows it: front running, manipulation of the commodities markets, trading ahead of interest rate moves, hidden losses, Enron-esque-accounting, ponzi schemes in the precious metals markets, you name it." (See also Winter Warning, February 15, 2010 – For the Love of Money – Quantitative Easing).
- In an incredibly revealing interview reported by Market Watch, Warren Buffet (The Oracle of Omaha) states "How the world weans itself off huge deficit financing is going to be difficult to watch." As long as the U.S. government borrows in U.S. dollars, there's "no possibility of default. You don't default when you can print your own currency." This statement is so ignorant, it is beyond commentary – the 'Oracle' obviously needs a new crystal ball.
- A California State court judge in San Francisco rules that a lawsuit launched by the California Public Employees' Retirement System (Calpers) in July 2009, against rating agencies Moody's Investors Service, Standard & Poors and Fitch Ratings, can proceed. Calpers claimed the rating agencies were guilty of "negligent misrepresentation," citing their faulty risk assessments on structured investment vehicles caused Calpers to suffer \$1 billion (U.S.) in losses.
- According to a recent Rasmussen Reports national telephone survey: "69% of Americans are not willing to have their taxes raised to deal with (federal) deficits that are projected to rise to historic levels over the next decade"

WEDNESDAY, MAY 5TH

- The U.S. Treasury announces its quarterly refunding for next week will be comprised the following auctions: \$38 billion of 3-year notes on May 11th., \$24 billion of 10-year notes on May 12th. and \$13 billion of 30-year bonds on May 13th. During the July – September quarter, Treasury expects to issue \$376 billion in net marketable debt, assuming an end-of-September cash balance of \$270 billion for the Supplementary Financing Program (cash for use in Federal Reserve initiatives).
- Moody's Investors Service warns it has placed Portugal's 'Aa2' sovereign debt rating on review for possible downgrade within the next three months, citing the recent deterioration in the country's public finances, as well as its long-term economic growth prospects

- According to the ADP (Automatic Data Processing) employer services survey, private U.S. companies added 32,000 jobs to their payrolls in April, citing continued strength in the services sector
- The Institute for Supply Management's survey of the U.S. services sector remained unchanged at a reading of 55.4 in April
- The Commerce Department reports the U.S. personal savings rate declined from 3% to 2.7% in March, citing its lowest level in 18 months
- Introducing the European Commission's latest economic forecasts, commissioner Olli Rehn warns: "The first thing for the new U.K. government to do is to agree on a convincing, ambitious program of fiscal consolidation, in order to start to reduce the very high deficit and stabilize the very high debt level of the country. That's by far the first and foremost challenge of the new government. I trust whatever the colour of the government, I hope it will take this measure."
- A survey of more than 400 companies by the Hong Kong and Shanghai Bank and Markit Economics reveals China's industrial output growing at a slower pace in recent months. The purchasing managers' index (PMI) declined to a seasonally adjusted reading of 55.4 in April from 57.0 in March. This follows China's central bank raising bank reserve requirement ratios for the third time this year, in a further attempt to curb rising inflation and a growing asset bubble.

THURSDAY, MAY 6TH

- According to the San Diego Union-Tribune, the City of San Diego is suing its retirement system in a dispute regarding how much financial responsibility, if any, city workers should bear for a pension deficit in excess of \$2 billion (U.S.). If successful, the lawsuit could lead to city workers to pay for the pension fund's investment losses, rather than the current process of having taxpayers fund any deficiencies. Since the City's constitution states that the City and its employees shall contribute "substantially equal" amounts to pension obligations each year. In this bizarre interpretation of the City's constitution, the legal outcome will be of interest to many American municipalities.

- The Greek Parliament approves severe austerity measures required as part of an international bailout of the struggling Greek economy. Meanwhile, Moody's Investors Service warns the sovereign debt crisis enveloping Greece could spread to adversely affect the banking systems in Portugal, Italy, Spain, Ireland and Britain, citing "A key factor determining whether (sovereign debt) contagion risk continues in this case will be the market's view of the likely success, or otherwise, of the recently agreed International Monetary Fund and European support package for Greece."
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FRIDAY, MAY 9TH

- The Federal Deposit Insurance Corp. (FDIC) closes four more banks: in Arizona, Minnesota, Florida and California; bringing the number of bank failures to 68 so far this year and costing the FDIC \$213.7 million (U.S.)
- Statistics Canada reports the country's economy added 108,700 workers in April, as the unemployment rate fell slightly to 8.1%. Most of the job gains were in the private sector, led by the construction industry and the retail and building services sectors, split between full and part-time positions.
- The Labor Department reports U.S. non-farm payrolls increased by 290,000 in April while figures for March and February were upwardly revised by 121,000. Since 805,000 people renewed their effort to seek employment, the unemployment rate actually rose from 9.7% to 9.9%.
- The Commerce Department reports residential construction increased by 1.6% in the 1st. quarter of 2010, from the pace in the same quarter in 2009, to a level of \$260.5 billion (U.S.), however, non-residential construction declined by 17.4% during the same period
- The Insolvency Service reports the number of U.K. citizens who declared bankruptcy, entered an involuntary arrangement, or obtained a debt relief order, rose by 18% to 35,368 in the 1st. quarter

- The U.K. general election results have not afforded any political party with an outright majority of at least 326 seats. As a consequence, Gordon Brown announces his resignation as Prime Minister and leader of the Labour Party, effective in the fall. At this time, it remains unclear whether Labour and the Liberal Democrats will be able to form a coalition government. Outlined below is a table of election results for the three leading political parties.

Political Party	MPs	Total Votes	Percentage	Swing %
Conservative	306	10,706,647	36.1	+ 3.8
Labour	258	8,604,358	29.0	- 6.2
Liberal Democrat	57	6,827,938	23.0	+ 1.0

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