

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



Monday, July 5TH

The China Automotive and Technology Center reports vehicle sales rose by 10.9% in June on a year-over-year basis, following a 25% gain in May

**MONDAY, JULY 5TH**  
U.S. Independence Holiday

- New vehicle sales in Canada increased to a seasonally adjusted annual rate of 1.5 million in June, compared to 1.4 million cars in May, led by Chrysler Canada, Ford Motor and General Motors
- 'AAA' rated Canada Post Corp. announces it will borrow up to \$1 billion (CAD) by issuing 15-year and 30-year bonds, underwritten by a dealer syndicate led by RBC Dominion Securities and TD Securities
- According to New York-based research firm Reis Inc., office buildings across the U.S. lost 1.8 million square feet of occupied space in the second quarter, pushing the national office vacancy rate to 17.4%, the highest level since 1993

**TUESDAY, JULY 6TH**

- The Institute for Supply Management (ISM) reports its non-manufacturing index declined to a reading of 53.8 in June from a level of 55.4 in May; while the employment index fell to a reading of 49.7 in June from a level of 50.4 in May
- The Agricultural Bank of China (AgBank), the last of China's four largest banks to go public, raises \$23 billion (U.S.) through an initial public offering (IPO) in Shanghai priced at 2.68 yuan (40 cents U.S.) and in Hong Kong priced at 3.20 Hong Kong dollars (41 cents U.S.). With nearly 24,000 branches, Agbank boasts the largest customer base in the world.

**Major Investors in AgBank IPO**

Cornerstone investors committed to AgBank IPO and size of investment

Qatar Investment Authority	\$2.8 billion
Kuwait Investment Authority	\$800 million
Standard Chartered	\$500
Rabobank	\$250
Seven Group Holdings	\$250
China Resources Holdings	\$200
Temasek Holdings	\$200
China Travel Services Group	\$150
Archer Daniels Midland	\$100
Cheung Kong Holdings	\$100
Singapore's United Overseas Bank	\$100

Source: WSJ research

- U.S. spending on new construction declined by an annual rate of 8% in May, led by a 15.2% drop in commercial construction to a level of \$571.7 billion (U.S.)
- European Central Bank President Jean-Claude Trichet encourages governments to reduce their budget deficits, citing such action would boost economic growth by improving consumer and investor confidence: "We are in a period where we have to manage budgets very tightly. I have no problem with austerity (or) rigor (since) I call this good budgetary management. Confidence is (the) key for (economic) growth and if you cannot have confidence in the sustainability of the fiscal policies, then you have no (economic) growth because you have no confidence. The two things are complimentary."

- For the second consecutive month, the Reserve Bank of Australia hold its cash lending rate target unchanged at 4.5%, citing an uneven global economic recovery and signs of an economic slowdown locally
- In a recent article in the U.K. Telegraph, Jim O'Neill, chief economist at Goldman Sachs warns the economic outlook in the U.S. is "distinctly chilly" and the country could be threatened by a period of deflation: "Despite our global economic optimism of the past year, we have remained rather cautious about the U.S., expecting the past problems of housing excess and domestic savings weakness to plague domestic consumption for some time. What is more troubling recently, is U.S. housing market indicators have turned especially weak again."  
What is troubling to us at Long Wave Analytics is having Goldman Sachs dab its big toe into our U.S. economic depression outlook camp. What can such an omen portend?
- The Baltic Dry Index, which measures the cost of shipping dry bulk goods and is a proxy for the global economy, has declined for 28 consecutive days, its longest decline in five years
- This week, Germany's Cabinet is poised to approve a 2011 budget, as part of a 4-year program of public spending cuts, intended to serve as an example to other European governments. Briefing papers for Wednesday's Cabinet meeting, released by Berlin last weekend, argue that by reducing spending, rather than increasing taxes, the 80 billion euro (\$100.3 billion U.S.) savings program would differ "fundamentally" from previous fiscal challenges and offer "noticeable, better (economic) growth possibilities."

### WEDNESDAY, JULY 7TH

- In a Bloomberg Television interview, Allstate Corp. Chief Executive Officer Thomas Wilson warns: "Government borrowing (in the U.S.) is way out of control. We need to get our house in order." Mr. Wilson stated that concerns about budget deficits and funding shortfalls will likely lead to bond prices declining in the municipal bond market, rather than widespread defaults: "The way the bankruptcy laws work, you generally get your money back on defaulted municipal debt. But in the meantime, the value of those securities will decline as people readjust risk. We're more worried about the market value (of our municipal bond holdings) than ultimately, not getting our money back."
- Germany auctions 4 billion euros (\$5 billion U.S.) of 10-year bunds at a yield of 2.56%, the lowest yield for a 10-year bund auction in at least 10 years
- The White House announces the U.S. government reduced the amount it spent on contracts that are awarded without competitive bidding, by 10% or \$2 billion (U.S.) during the first half of fiscal 2010. Jeffrey Zients, the Office of Management and Budget's (OMB) chief performance officer commented: "By reducing the use of these high-risk contracts we're making contractors more accountable and saving taxpayer dollars."
- After two failed takeover bids, French energy giant Total SA makes a \$1.15 billion (CAD) offer for Calgary-based UTS Energy Corp. The takeover, which has been approved by the UTS board of directors, will give Total a 20% stake in the big Fort Hills oil sands mining project, whose reserve estimate is 3.4 billion barrels of bitumen. The project is 60% owned by Suncor Energy and 20% owned by Vancouver-based Teck Resources.
- In its annual employment report, the Organization for Economic Co-operation and Development (OECD) warns: "With many unemployed experiencing long periods of joblessness, the risk that the sharp increase in cyclical unemployment will become structural in nature (on a global basis) is rising and the risk varies greatly across countries." In Canada's case, the OECD notes that "as a percentage of the labour force, the number of long-term unemployed has almost doubled in the two years to the end of 2009. The temporary extension of employment insurance benefits should have created a much needed buffer and should be maintained until that specific category falls significantly. But it is becoming even more important to make sure these extensions are accompanied by close monitoring of job-search efforts to avoid benefit dependency."
- The European Commission reports that the average retirement age would have to increase from the current age of 60 to 70 by the year 2060, if workers are to continue supporting retirees at current rates. European populations are aging, as people are living longer and birth rates are declining gradually. Governments with mounting debt are increasing retirement ages to reduce the expected pension shortfall. Germany will raise the retirement age to 67 in 2029. Spain is considering a similar move and Britain is contemplating an increase to age 68.
- The European Union agrees to the world's strictest rules on bankers' bonuses, limiting upfront cash to 30% of a banker's total bonus and 20% in the case of very large bonuses. Between 40% to 60% of bonuses must be deferred for at least three years and be clawed back if the recipient's investments perform poorly.

- As California struggles with a \$19.1 billion (U.S.) budget deficit, Governor Arnold Schwarzenegger orders sweeping pay cuts for 200,000 public employees, bringing their salaries into line with the U.S. minimum wage of \$7.25 per hour. However, John Chiang, the State controller, is refusing to implement the order, calling it a “reckless” move in violation of payroll laws. Despite being directed to carry out the order by the Appellate Court, Mr. Chiang is holding firm, insisting: “Withholding pay from state employees until a budget is enacted, does nothing to solve the budget deficit, but will only make it worse. The controller will pursue any legal avenue needed to protect Californians from the Governor’s reckless executive order.”
- In a report entitled “Quantifying the Unthinkable,” Dutch bank ING warns: “A complete break-up (of the eurozone) would have effects that dwarf the post Lehman Brothers collapse. Governments would find themselves having to bail out banks again, worsening already fragile government finances. The risk of at least a temporary breakdown in payments systems would be enormous. Initial trauma is sufficiently grave to give pause for thought to those who blithely propose EMU exit as a policy option.”

#### THURSDAY, JULY 8TH

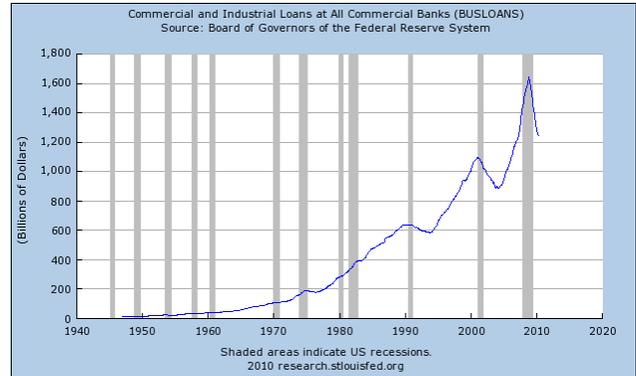
- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 21,000 to 454,000 in the week ended July 3rd. while continuing claims fell by 224,000 to 4.413 million in the week ended June 26th.
- In its World Economic Outlook, the International Monetary Fund (IMF) forecasts global economic growth of 4.6% in 2010, slightly higher than the 4.2% forecast last April, and 4.3% in 2011, unchanged from April. The IMF elaborated that despite the short-term upward revision, “downside risks have risen sharply amid renewed financial turbulence. The new forecasts hinge on implementation of policies to rebuild confidence and stability, particularly in the euro area.” Advanced economies should focus their policy on “credible fiscal consolidation, notably measures that enhance medium term (economic) growth prospects, such as reforms to entitlement and tax systems; as well as financial sector reform and structural reforms to enhance economic growth and competitiveness. Monetary policy should remain accommodative.”
- Statistics Canada reports the new housing price index rose by 0.3% in May, following identical increases in April and March
- The European Central Bank (ECB) and the Bank of England leave their key lending rates unchanged at 1% and 0.5%, respectively. At a Frankfurt press conference, ECB President Jean-Claude Trichet remarked: “The Governing Council views the current key ECB interest rates as appropriate and inflation expectations remain firmly anchored.”
- San Francisco-based Wells Fargo, the fourth largest U.S. bank by assets, announces plans to eliminate 3,800 jobs, about 1.4% of its total work force; as well as plans to close 638 independent consumer finance branches and to curtail issuing non-prime mortgage loans. In a Bloomberg telephone interview, David Kvamme, president of the consumer finance unit, commented: “We have a store network and that is closing. Some of the businesses have been branded Wells Fargo Financial and we will re-brand them over time.”
- Many U.S. retailers are reporting slower sales for June reflecting cautious attitudes from consumers who are increasingly worried about jobs
- Energy companies pay an average of \$2,084.86 (CAD) per hectare in Alberta’s petroleum land sale, netting the Province \$451 million (CAD), the second highest total in provincial history
- The Bank of Korea raises its benchmark interest rate by 25 basis points to 2.25%, citing growing inflationary pressures and increasing household debt

#### FRIDAY, JULY 9TH

- Statistics Canada reports the country’s employment level rose by 93,200 in June, split about evenly between part-time and full-time jobs, following gains of 24,700 in May and 108,700 in April. Canada’s unemployment rate declined to 7.9% in June from 8.1% in May.
- Two European Central Bank (ECB) executive board members downplay concerns about the recent increase in Euro open market interest rates, stating it won’t hurt the European economy. In a Frankfurt news conference, Juergen Stark commented: “The gain in the overnight Eonia rate is very small and we shouldn’t exaggerate this development.” In a Bloomberg Television interview, his colleague Lorenzo Bini Smaghi remarked: “It’s not going to affect ultimately, the interest rates banks charge customers.”

- The Canada Mortgage and Housing Corp. (CMHC) reports the country's housing starts declined by 3.1% to a seasonally adjusted annual rate of 189,300 units in June, from an upwardly revised 195,300 units in May and 205,900 units in April
- U.S. state and federal regulators close four banks in Maryland, New York and Oklahoma, bringing the total of American bank failures to 90 so far this year
- The Basel, Switzerland based-Bank of International Settlements announces that it has loaned several commercial banks \$14 billion (U.S.) of foreign currencies against collateral of gold bullion, igniting speculation by gold and currency traders that this gold might be sold in the open market. This speculation seems to have originated with the press who incorrectly reported the transaction as a "swap" instead of a "loan." It would appear to us that this transaction represents gold being used as a leveraging option for needed foreign currencies to meet bank requirements. If this gold had been for sale, the commercial banks could have already effected those transactions without any assistance from the BIS.

- The Federal Reserve reports U.S. banks' commercial and industrial loans declined by \$9 billion (U.S.) to about \$1.238 trillion (U.S.) in the week ended June 30th. following a decline of \$2.4 billion (U.S.) the previous week. Commercial and industrial loans declined by 18.6% in the fiscal year ended September 30, 2009 and by 9.6% in the first three quarters of fiscal 2010.



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