

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



Monday, July 19TH

Conrad Black, former Canadian newspaper baron, is granted bail and will be freed on bail from a Florida prison, pending an appellate court review of his conviction for fraud

MONDAY, JULY 19TH

- Moody's Analytics warns the BP oil spill may cost the U.S. Gulf Coast region 17,000 jobs and about \$1.2 billion (U.S.) in lost economic growth by the end of 2010, even if the oil leak is permanently sealed in August
- Moody's Investors Service downgrades Ireland's sovereign debt rating to 'AA2' with a stable outlook from 'AA1.' In a statement, Dietmar Hornung, a Moody's vice president and lead analyst for Ireland, warned: "Today's downgrade is primarily driven by the Irish government's gradual, but significant loss of financial strength, as reflected by its deteriorating debt (servicing) affordability." Ireland's Economic and Social Research Institute recently reported that the cost of bailing out nationalized Anglo-Irish Bank in 2009 pushed the country's budget deficit to 14% of gross domestic product (GDP), the highest in Europe, and which could rise to 20% or more this year.
- International Monetary Fund (IMF) and European Union (EU) officials suspend a budgetary review over the weekend, as Hungary's conservative government insists it will not impose further austerity measures, despite pressures from its international creditors. In a television interview, Economy Minister Gyorgy Matolcsy stated that Hungary has been tightening its belt for years, to bring down a deficit that peaked under the previous socialist government in 2006 at 9% of gross domestic product (GDP). The suspension of the IMF-EU review, which was to conclude this week, means that for now, Hungary will not be able to access the remaining 5.5 billion euros (\$7 billion U.S.) in its 20 billion euro bailout package.

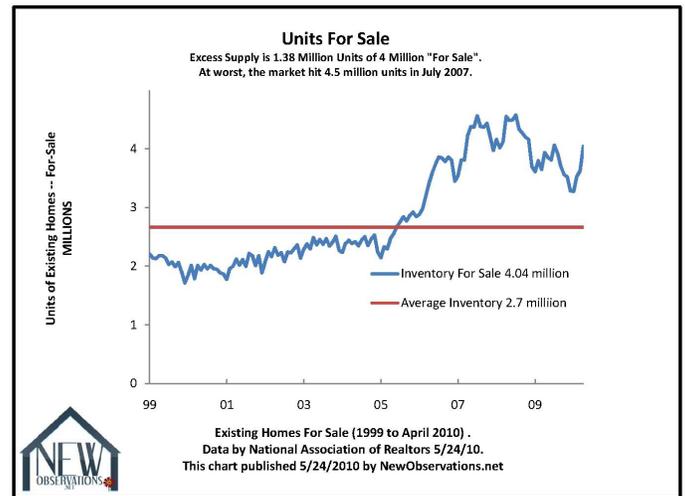
- Innkeepers USA Trust, a real estate investment trust (REIT) that owns 72 hotels, files for bankruptcy protection in New York in a wide-ranging deal with its creditors. Labouring under \$1.42 billion (U.S.) of debt, Innkeepers holds interests in 72 upscale extended-stay hotels operating under brand names, such as Marriott, Hyatt and Hilton. The hotels are located across 19 American states and in Washington, D.C.

TUESDAY, JULY 20TH

- Goldman Sachs Group reports a second quarter profit of \$613 million (U.S.) compared to a profit of \$3.44 billion (U.S.) a year ago, citing the \$550 million (U.S.) legal settlement with the Securities & Exchange Commission, the \$600 million U.K. bonus tax, as well as sharp declines in revenue from its trading and investment banking sectors
- The Bank of Canada raises its Bank Rate by 25 basis points to 0.75%, while downwardly revising its forecast for economic growth (gross domestic product) from 3.7% to 3.5% this year and from 3.1% to 2.9% in 2011. Bank of Canada Governor Mark Carney stated the GDP revisions (which will be explained in greater detail in a new forecast which the central bank will release on Thursday) are due, not only, to "a slightly weaker profile" for global economic growth, but also, to "more modest consumption" domestically, as the housing market cools, government stimulus spending expires and business investment remains tepid.

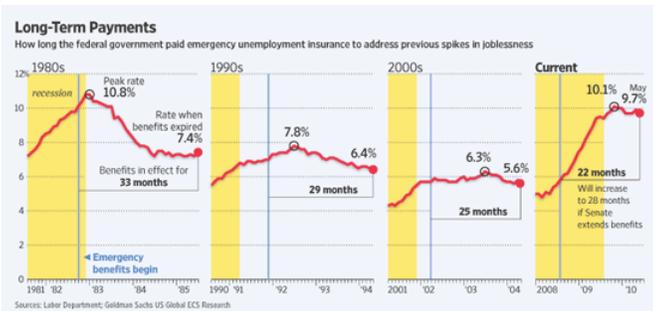
- The Commerce Department reports that following a 15% decline in May, U.S. housing starts fell by 5% in June to a seasonally adjusted annual rate of 549,000 units, the lowest level in 8 months
- Matt Simmons, author of the book "Twilight in the Desert" asserts the ultimate clean up cost of the Gulf of Mexico oil spill will likely exceed \$1 trillion (U.S.). Moreover, Mr. Simmons alleges that a joint cover up effort is being orchestrated by the Obama administration and BP: "What we don't know anything about is the open hole which is caused by the drill, when it tossed the blowout preventer way out of the hole and 120,000 barrels per day of toxic poison has now covered the floor of the Gulf. This is the biggest environmental cover up ever."
- The Royal Bank of Canada, Toronto-Dominion Bank and Canadian Imperial Bank of Commerce raise their prime lending rate to 2.75%
- After weeks of contentious debate, The U.S. Senate is poised to extend unemployment benefits to 2.5 million Americans for another 6 month period

- The National Association of Home Builders' Confidence Index for new U.S. home sales declines by two points to a reading of 14, the lowest level since April, 2009



WEDNESDAY, JULY 21ST

- According to recent minutes released by its Monetary Policy Committee, the Bank of England decided to leave its key lending rate unchanged at 0.5%, as well as maintain its quantitative easing program unchanged at 200 billion pounds
- The landmark Dodd-Frank financial reform law, being signed by U.S. President Obama today, makes ratings firms liable for the quality of their rating decisions, effective immediately. Accordingly, Fitch Ratings, Standard & Poors and Moody's Investors Service are refusing to allow their ratings to be used in prospectuses for new bond issues, until they obtain a better understanding of their legal exposure. Look not to Long Wave Analytics for sympathy! You debt raters brought this on yourselves the moment you rated a securitized sub-prime mortgage issue 'AAA' when you, allegedly, knew it not to be an investment grade credit. No new asset-backed bond issues have been launched this week.
- With Brazil's annual inflation rate rapidly approaching 5%, the Brazilian central bank raises its overnight lending rate to 10.75%. Once domestic administered interest rates hit double-digit levels (as they did in Canada and America in 1981) it should mark the beginning of the end for any further economic growth (GDP) in South America's largest economy



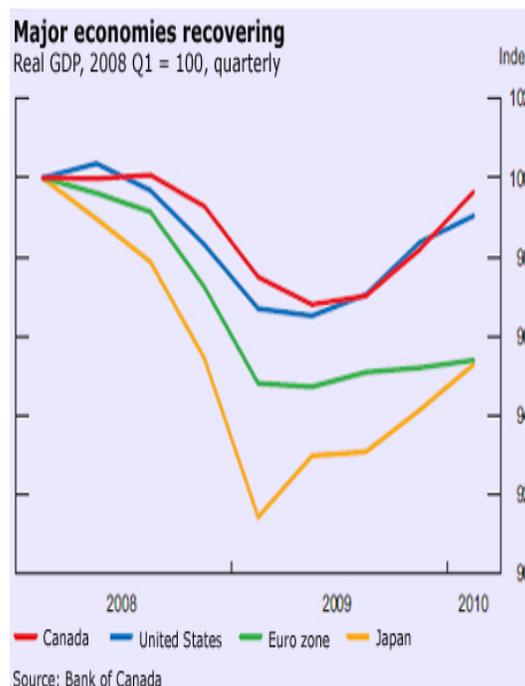
- The International Monetary Fund (IMF) is seeking funding commitments from member countries by as soon as November, in order to increase its lending resources to \$1 trillion (U.S.) from \$750 billion (U.S.) to build safety nets that could prevent financial crises. Rather than responding to financial crises solely with conditional loan packages, the IMF wants financing structured in advance and specially tailored to individual countries, to calm market anxiety over any nation facing an imminent liquidity crunch. Dominique Strauss-Kahn, IMF Managing Director, commented: "Even when not on a time of (financial) crisis, a big fund, likely to intervene massively, is something that can help prevent crises. Just because the financing role decreases, doesn't mean we don't need to have huge firepower ... \$1 trillion U.S. fund is a correct forecast."

- In presenting the Federal Reserve's semi-annual monetary policy report to Congress, Fed Chairman Ben Bernanke testified it would take "a significant amount of time" to restore the 8.5 million jobs lost in the United States in 2008 and 2009, and that "the economic outlook remains unusually uncertain." Mr. Bernanke reported that the economic recovery was continuing at a modest pace, though with a "somewhat weaker outlook" and that the Fed had no imminent plans to go beyond its current (policy) strategy of keeping short-term administered interest rates exceptionally low. Citing today's labour market as the worst since the Great Depression, Mr. Bernanke stated: "We don't think a double dip is a high probability event, and at this point, there is not a very high probability that deflation will become a concern. However, I think we need to be very seriously concerned about the implications of long-term unemployment. I believe large deficits (as unattractive as they are) are important for supporting economic activity. At the same time, to maintain confidence and keep (administered) interest rates low, its important we have a credible plan to reduce deficits over the next few years."
WELL MR. BERNANKE, THE TRUTH IS YOU NEITHER HAVE A CREDIBLE PLAN TO REDUCE THE DEFICIT, NOR, THE AUTHORITY TO REDUCE THE NATIONAL DEBT, NOW \$13.3 TRILLION (U.S.)

THURSDAY, JULY 22ND

- The National Association of Realtors reports U.S. existing home sales declined by 5.1% in June versus a drop of 2.2% in May to a seasonally adjusted annual rate of 5.37 million units
- The New York-based Conference Board's index of leading economic indicators (LEI) declined by 0.2% in June
- The U.S. Labor Department reports initial claims for state unemployment benefits increased by 37,000 to 464,000 in the week ended July 17th. while continuing claims declined by 223,000 to 4.5 million people in the week ended July 10th.
- U.S. Treasury Secretary Timothy Geithner announces the Obama administration will allow tax deductions for the wealthiest Americans (the President Bush-era tax cuts) to expire on January 1, 2011, as part of an effort to help reduce the mounting budget deficit: "We believe it is appropriate to let those tax cuts that go to the most fortunate, expire. The White House still plans to extend tax cuts for middle and lower income Americans and expects to undertake a broader tax overhaul next year."

- In an article for the Financial Times, Jean-Claude Trichet, President of the European Central Bank argues that public spending cuts and tax increases should be imposed immediately across the industrialized world as evidence mounts of a healthy European (economic) recovery. Mr. Trichet contends that policymakers who want to maintain the stimulus are mistaken and that cutting borrowing would have "very limited" effects on (GDP) growth: "We have to avoid an asymmetry between bold, if justified, loosening and unduly hesitant retrenchment."
- According to Markit's Flash Eurozone PMI composite index, based upon data collected from over 4,500 companies in the euro zone manufacturing and service rose to a three-month high reading of 56.7 in July, compared with 56.0 in June.
- In its July Monetary Policy Report, the Bank of Canada warns that global uncertainties will restrict private investment and demand in Canada and around the world: "The intensification of sovereign debt concerns in Europe has led to increased uncertainty, a tightening of global financial conditions and a reduction in world commodity prices. The accelerated global fiscal consolidation and the weaker and more uncertain global outlook imply a slightly more pronounced deceleration in economic growth in Canada than previously expected. Developments in Europe are also transmitted to Canada indirectly, through a softening of U.S. demand for Canadian exports and reduced demand for commodities, putting downward pressure on Canada's terms of trade."



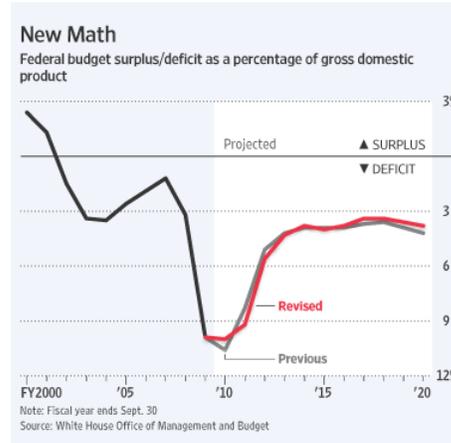
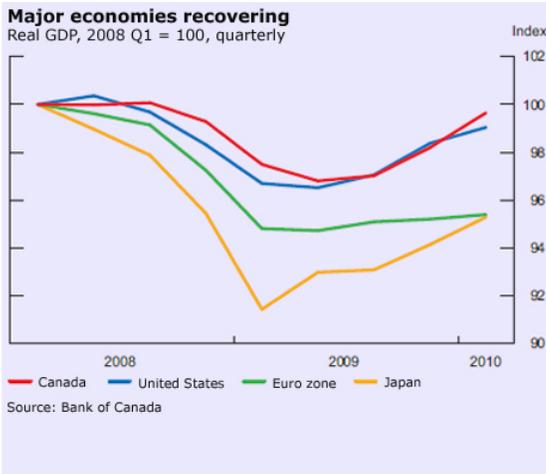
- The Office for National Statistics reports U.K. retail sales volumes increased by 1% in June, the strongest increase in almost a year
- New York State comptroller Thomas DiNapoli files separate lawsuits against Bank of America and Merrill Lynch (B of A's controversial acquisition), alleging that the State's pensioners suffered losses because of both companies' actions during the financial crisis. In a statement, Mr. DiNapoli alleged: "These companies thought they could get away with profiting at the expense of New York's pensioners and taxpayers fraudulent activities and misleading public disclosures, and they were mistaken. Today, these companies have been served notice that they will be held accountable for losses caused through their misconduct." In the B of A lawsuit, Mr. DiNapoli alleges that the bank and three managers, including Ken Lewis, its former chief executive officer, misrepresented and concealed material information on its January, 2009 acquisition of Merrill. (See also, Winter Warning, The Clash of Cultures – February 2, 2009)
- Hidden in President Barack Obama's recent health care legislation is a provision which states that commencing January 1, 2012, Form 1099 will become a method of reporting to the U.S. Internal Revenue Service the purchases of all goods and services by small businesses and self-employed people that exceed \$600 (U.S.) during a calendar year. The Maryland-based Industry Council for Tangible Assets (ICTA) is a trade association representing an estimated 5,000 coin and bullion dealers in the U.S. whose industry affairs director, Diane Piret says members are strongly opposed to the legislation: "Coin dealers, not only buy their inventory from other dealers, but also, with great frequency from the public. Most other types of businesses will have a limited number of suppliers from whom they buy their goods and products for resale." Pat Heller, who owns Liberty Coin Service in Lansing, Michigan, deals with over 1,000 customers every week. Mr. Heller estimates that he will be completing between 10,000 and 20,000 tax forms every year after the new legislation becomes law: "I'll have to hire two full-time people just to track all this stuff, which cuts into my profitability." Like a semi-submerged crocodile, the tax man will lunge at any revenue prey.
- Germany launches a 4 billion euro (\$5.2 billion U.S.) 30-year bond issue carrying a 3.25% coupon which attracted buyers totaling only 3.764 billion euros. The combination of an historically low euro zone country long-term yield and the political and economic uncertainty surrounding the future of the European Union itself, has investors erring on the side of caution in this market

FRIDAY, JULY 23RD

- The long-awaited results of stress tests on Europe's major banks reveal only 7 of 91 banks in the European Union failed to pass. The tests gauged their core capital, the effect another economic downturn might have and the potential losses on the value of government bonds held in their trading accounts. As measured by total assets, the 91 banks account for 65% of the European market. At Long Wave Analytics, we remain skeptical that these examination results will placate investor fears regarding the solvency of major European banks, when GDP reports slide back into negative territory.



- The Federal Deposit Insurance Corp. (FDIC) seizes seven U.S. banks in seven states with total deposits of \$2 billion (U.S.) marking the second consecutive year in which at least 100 American banks have collapsed. Regulators may close the most banks since 1992, as underperforming residential and commercial mortgages impair capital levels
- Statistics Canada reports Canada's annual inflation rate declined to 1% in June, while the underlying core rate (excluding food and energy) crept lower to 1.7%
- Through the first two months (April/May) of the current fiscal year ending March 31, 2011, the Canadian government's deficit amounts to \$4.4 billion (CAD) or, \$26.4 billion (CAD) annualized; compared with \$7.5 billion (CAD) in the same period of 2009. The Conservative government projects a shortfall of \$49 billion (CAD) for fiscal 2011, of which \$1.8 billion (CAD) to date is attributable to the government's stimulus measures named the Economic Action Plan, which includes tax cuts and infrastructure spending.



- The White House raises its forecast for the fiscal 2011 budget deficit to \$1.4 trillion (U.S.), or 9.2% of the gross domestic product (GDP), from \$1.267 trillion forecast last February. The federal deficit looms as a major issue in the November mid-term elections and recommendations forthcoming in December from the President's National Commission on Fiscal Responsibility and Reform. We expect the Democratic Party to endure major losses in the November elections, possibly losing control of the House of Representatives. Political gridlock could ensue, creating an economic civil war and possible social unrest.

- In a recent U.K. Telegraph article by Ambrose Evans-Pritchard, the headline reads: "With the US trapped in depression, this really is starting to feel like 1932." While we agree with the "parry and thrust" of Mr. Evans-Pritchard's analysis about America being trapped in an (economic) depression, we would correct his reference point to 1931, since that was the year Britain abandoned the gold standard amid the developing global monetary crisis.

CLOSING LEVELS FOR FRIDAY JULY 23rd.

Dow Jones Industrial Average	10,424.62
Spot Gold Bullion (August)	\$1,187.80 (U.S.)
S&P/TSX Composite	11,714.20

WEEKLY CHANGE

+ 102.32 points
– \$5.20 per ounce
+ 144.55 points

Ian A. Gordon, The Long Wave Analyst www.longwavegroup.com

Disclaimer : This information is made available by Long Wave Analytics Inc. for information purposes only. This information is not intended to be and should not to be construed as investment advice, and any recommendations that may be contained herein have not been based upon a consideration of the investment objectives, financial situation or particular needs of any specific reader. All readers must obtain expert investment advice before making an investment. Readers must understand that statements regarding future prospects may not be achieved. This information should not be construed as an offer to sell, or solicitation for, or an offer to buy, any securities. The opinions and conclusions contained herein are those of Long Wave Analytics Inc. as of the date hereof and are subject to change without notice. Long Wave Analytics Inc. has made every effort to ensure that the contents have been compiled or derived from sources believed reliable and contain information and opinions, which are accurate and complete. However, Long Wave Analytics Inc. makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions which may be contained herein, and accepts no liability whatsoever for any loss arising from any use of or reliance on this information. Long Wave Analytics Inc. is under no obligation to update or keep current the information contained herein. The information presented may not be discussed or reproduced without prior written consent. Long Wave Analytics Inc., its affiliates and/or their respective officers, directors or employees may from time to time acquire, hold or sell securities mentioned herein. In addition, the companies referred to herein may pay a fee to Long Wave Analytics Inc. to be listed on www.longwavegroup.com. Copyright © Longwave Group 2010. All Rights Reserved.

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