

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

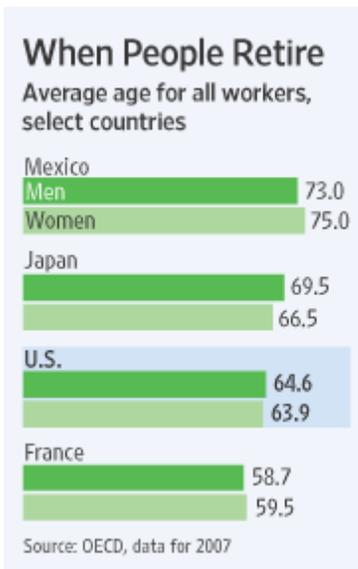


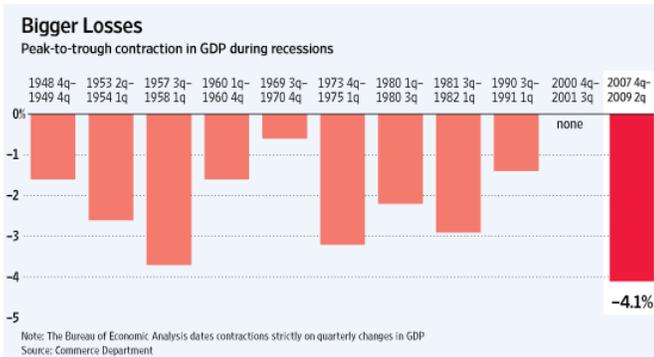
Monday, August 2nd

The Tempe, Arizona-based Institute for Supply Management's manufacturing index declined to a reading of 55.5 in July from a level of 56.2 in June

MONDAY, AUGUST 2ND

- U.S. construction spending rose by 0.1% in June versus a revised decline of 1.0% in May
- Lawmakers in at least 10 U.S. states have voted to extend the retirement age when workers can expect to be paid a full pension, or have increased penalties for early retirement. Similar proposals are pending in California and Mississippi, which are already among the states requiring more years of service for a full pension. The National Commission on Fiscal Responsibility and Reform is also considering the idea of increasing the retirement age, as one way to bolster the Social Security program.
- The eurozone manufacturing purchasing managers' index rose to a reading of 56.7 in July from a level of 55.6 in June. Meanwhile, the annual inflation rate in the region rose to 1.7% in July, up from 1.4% in June; while the unemployment rate was unchanged at 10%.
- The German purchasing managers' index increased to a reading of 61.2 in July from a level of 58.4 in June, the highest level in the last three months
- Speaking at the 64th. annual meeting of the Southern Legislative Conference in Charleston, S.C., Federal Reserve Board Chairman Ben Bernanke stated the U.S. had a "considerable way to go to achieve a full recovery in our economy, and many Americans are still grappling with unemployment, foreclosure and lost savings. The housing market has remained weak, with the overhang of vacant or foreclosed houses weighing on home prices and new construction. Similarly, poor economic fundamentals and tight credit are holding back investment in non-residential structures, such as office buildings, hotels and shopping malls."
- China's Federation of Logistics and Purchasing reports its Purchasing Managers' Index declined to a reading of 51.2 in June from 52.1 May, due to the government's ongoing restrictions on property speculation and investments in energy-intensive and polluting factories





TUESDAY, AUGUST 3RD

- The Commerce Department reports U.S. personal income and consumer spending were basically unchanged in June while the U.S. personal savings rate rose to 6.4%, a one-year high
- The National Association of Realtors reports U.S. pending home sales declined by 2.6% in June and by 18.6% from June, 2009
- The Commerce Department reports U.S. factory orders declined by 1.2% in June, compared with a revised drop of 1.8% in May
- Toronto-based Kinross Gold announces a \$7.1 billion (U.S.) share-swap takeover of Red Back Mining Inc. strengthening its capitalization to \$18 billion (U.S.) and making the company the world's 4th. largest gold producer by 2015. The takeover enables Kinross to broaden its operations into Ghana and Mauritania in West Africa, one of the fastest growing areas for gold production in the world.

WEDNESDAY, AUGUST 4TH

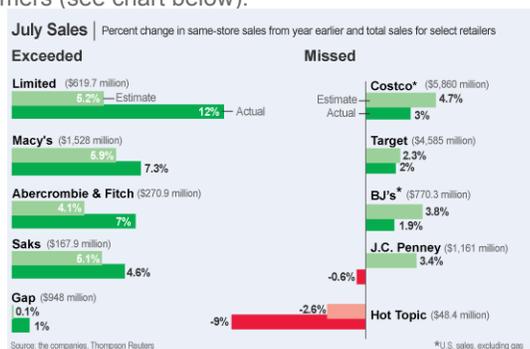
- ADP Employer Services reports U.S. companies hired 42,000 workers in July, following a revised 19,000 increase in June
- Autodata Corp. reports Asian automakers, led by Hyundai Motor and Kia Motors, increased their market share to 48.1% of U.S. vehicle sales in July; compared to a combined 43.7% market share for General Motors, Ford Motor and Chrysler
- The Institute for Supply Management's U.S. service sector index rose to a reading of 54.3 in July compared with a level of 53.8 in June, citing a modest improvement in new orders and "a cautious optimism about business conditions"
- The National Bankruptcy Research Center reports U.S. personal bankruptcies increased by 9% to 137,698 in July from the June total, placing 2010 on a pace to record the largest number of consumer bankruptcy filings in five years

- Chicago-based Challenger, Gray and Christmas Inc. reports planned firings by U.S. employers declined by 57% to 41,616 in July, compared to 97,373 in July, 2009. Chief Executive Officer John Challenger commented: "The month-to-month totals are so low when compared to recent years, that the trend in no way suggests a reversal of the significant slowdown in (job) layoff activity over the past year."
- Spanish Banco Santander purchases 318 branches from U.K. government-controlled Royal Bank of Scotland for 350 million pounds (\$558 million U.S.), citing the "acquisition is a giant step for Banco Santander in the small and medium-sized enterprises sector in the United Kingdom"
- A measure to provide \$26 billion (U.S.) in emergency aid to American state and local governments to expand Medicaid and avoid teacher layoffs clears a key Senate procedural hurdle, enabling Senators to return from their summer recess to vote on the bill next week. Since approval is also required by the House of Representatives, in a highly unusual move, House Speaker Nancy Pelosi intends to instruct her colleagues to return to the Capitol: "As millions of children prepare to go back to school – many in just a few days – the House will act quickly to approve the legislation once the Senate votes."
- The Markit/CIPS U.K. construction purchasing managers' index (PMI) declined to a reading of 54.1 in July from a level of 54.8 in June, citing housing construction continued to grow more sharply than commercial activity, or civil engineering, but at the slowest pace since February

THURSDAY, AUGUST 5TH

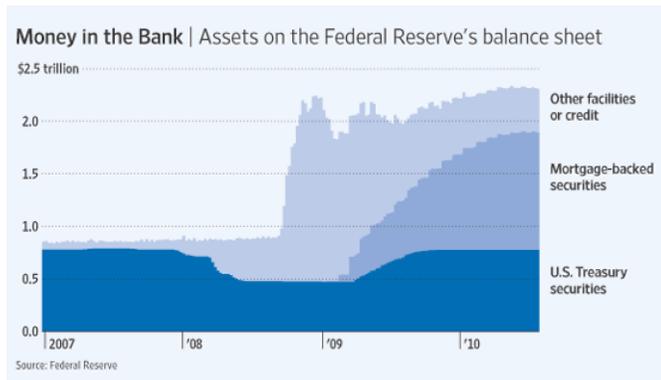
- The Labor Department reports U.S. initial claims for state unemployment benefits rose by 19,000 to 479,000 in the week ending July 31st. while continuing claims declined by 34,000 to 4.54 million in the week ending July 24th.
- Meeting in Frankfurt, the European Central Bank's Governing Council maintains its benchmark lending rate at 1%
- The Bank of England's Monetary Policy Committee keeps its key lending rate at 0.5% and leaves its quantitative easing plan unchanged at 200 billion pounds (\$318 billion U.S.)
- Manulife Financial reports a \$2.4 billion (CAD) net loss, citing lower prices for equity investments and the continuing low level of prevailing interest rates

- Unilever, the world's second-largest consumer goods maker, reports a 2.2% decline in revenues in the 2nd. quarter, ex-foreign exchange transactions. Chief Executive Officer Paul Polman cites: "We continue to operate under the assumption of slow economic growth, particularly in developed markets where consumer confidence remains fragile."
- BCE Inc., Canada's largest telecommunications company, posts a 70% profit growth in the 2nd. quarter to \$590 million (CAD), compared with a profit of \$346 million (CAD) in the same period a year ago, citing it will relaunch its discount brand Solo Mobile as an unlimited talk-and-text service
- Sun Life Financial reports a net profit of \$213 million (CAD) in the 2nd. quarter, compared to a profit of \$591 million (CAD) in the same period of 2009. Chief Executive Officer Don Stewart commented: "Our underlying businesses are strong and we continue to take action to mitigate the impact of volatile economic and market factors, including changing product design and mix to reduce risk and increase profit."
- Chrysler Canada reports 22,391 vehicle sales in July, up 40% from the same period a year ago; while General Motors Canada reports 23,917 vehicle sales, up 21% on a year-over-year basis
- Kinross Gold reports a second quarter profit of \$103.8 million (U.S.). Chief Executive Officer Tye Burt cited: "record margins, and year-over-year increases in revenue, operating cash flow and adjusted net earnings. We remain on target to meet our overall forecast for 2010 production; as well as cost of sales per ounce (of gold)."
- The Canadian Real Estate Association (CREA) reports in Vancouver and Calgary, real estate sales declined by 45% and 42%, respectively in July, compared to the same period a year ago.
- The Wall Street Journal reports retail sales at U.S. chain stores rose by 2.9% in July, as markdowns failed to inspire cautious consumers (see chart below).



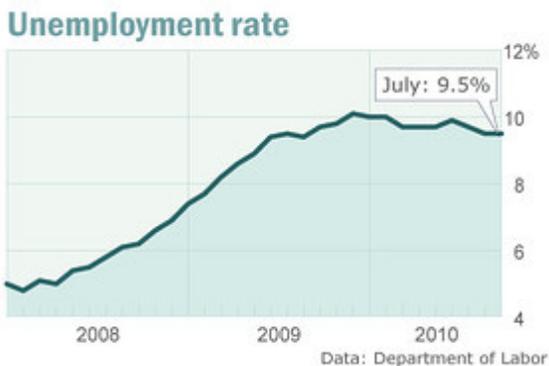
- In a New York Times Op-Ed, reporter Nelson Schwartz contrasts the U.S. economic outlooks of two well known Wall Street economists; Jan Hatzius of Goldman Sachs and Richard Berner of Morgan Stanley. Entitled "Two Top Economists Differ Sharply on Risk of Deflation," Mr. Berner outlines his 3rd. quarter scenario with "a more optimistic forecast for 3.4% GDP growth; a 2.3% rise in the consumer price index and a 9.7% unemployment rate." Citing a declining trend in consumer spending, Mr. Hatzius warns: "We had a housing and credit boom that was unsustainable, and now this boom has turned into a bust. There was too much debt, and the deleveraging process has still got a ways to go. It's going to keep private demand weak." At Long Wave Analytics, while we find ourselves more comfortable in the camp of Mr. Hatzius, we feel neither economist has sufficiently factored the demon national debt problem, currently at \$13.35 trillion (U.S.) and growing at the rate of \$250 million (U.S.) an hour, into their economic equations. So, the relentless debasement of the American greenback continues unabated, with the Obama administration seemingly oblivious to the ultimate consequences of not having a credible, long term debt reduction plan in place; such as, the potential loss of the government's 'AAA' credit rating. U.S. officials and politicians from both parties tirelessly bore investors with rhetoric about deficit solutions which 'will surface when the economy strengthens.' We believe the U.S. economy will not stage a meaningful recovery until the deleveraging process on consumer, corporate and government levels is exhausted at the end of the Kondratieff winter. The Bank of England leaves its key lending rate unchanged at a record low 0.5% and confirms no change in its 200 billion pound (\$320 billion U.S.) monetary stimulus program. Howard Archer, economist at HIS Global Insight, comments that "with sustainable, significant (economic) recovery very far from guaranteed, any (monetary policy) tightening still looks a long way off and we expect interest rates to stay down at 0.5% until at least late in 2010."
- In a Wall Street Journal Op-Ed, reporter Jon Hilsenrath notes: 'Federal Reserve officials will consider a modest, but symbolically important change in the management of their massive securities portfolio when they meet next week to ponder an economy that seems to be losing momentum. The issue: Whether to use cash the Fed receives when its (securitized) mortgage bond holdings mature to buy new (securitized) mortgage (securities) or U.S. Treasuries, instead of allowing its portfolio to shrink gradually, as it is expected to do in the months ahead. The central bank's \$2.3 trillion (U.S.) portfolio has nearly tripled in size since 2007. Buying new bonds with this stream of cash from maturing bonds – projected at about \$200 billion (U.S.) by 2011 – would show the public and markets that the Fed is seeking ways to support economic growth.'

At Long Wave Analytics, we fail to see the potential benefit of any further quantitative easing on the part of the Federal Reserve. The main reason why the Fed adopted this policy in March, 2009, was for market-related liquidity reasons. Such issues are no longer prevalent in today's market and there is no problem of a "crowding out" of potential borrowers. Rather, given the many uncertainties within the U.S. economy at present, the overriding challenge for investors seems to be one of confidence. Replacing \$200 billion (U.S.) of maturing securities with 30-year Treasuries will only serve to maintain long-term high grade yields at 4.00%, while continuing to monetize the debt – something Federal Reserve Chairman Ben Bernanke has vowed several times not to do.



FRIDAY, AUGUST 6TH

- The Labor Department reports U.S. total non-farm payrolls declined by a seasonally adjusted 131,000 in July, citing all the lost jobs were temporary positions at the U.S. Census; while June non-farm payrolls were downwardly revised to a decline of 221,000 from a previously reported drop of 125,000. Private sector payrolls increased by an estimated 71,000 in July and the unemployment rate remained unchanged at 9.5%.



- The German economics ministry reports the country's industrial production declined by 0.6% in June, following a 2.9% increase in May
- Statistics Canada reports the economy lost a net 9,300 jobs in July, while the unemployment rate rose to 8% from 7.9% in June. Canadian employers cut 139,000 full-time positions in July, while adding almost 130,000 part-time jobs. The full-time job losses included over 65,000 jobs in education services and about 30,000 in finance, insurance, real estate and leasing.
- Mining giant Rio Tinto reports a net profit of \$5.85 billion (U.S.) in the six months ended June 30th. citing strong iron ore demand from China and higher commodity prices in general. The world's third largest mining company disclosed its net debt has been reduced to \$12 billion (U.S.) compared with \$39 billion (U.S.) a year earlier. Rio Chairman Jan du Plessis commented: "This was an outstanding six months reflecting higher (commodity) prices. Our business is robust with a strong balance sheet which is able to withstand (market) volatility, or further shocks from the global economy."
- Goldman Sachs downwardly revises its average annual 2011 U.S. economic outlook for GDP growth to 1.9% from 2.4%
- Christina Romer announces her resignation as Chair of U.S. President Obama's Council Economic Advisors, effective September 3rd. Ms. Romer also expressed her regret for one of her first official acts for the President, i.e. last January's forecast that the sizeable federal stimulus would save millions of jobs and keep the unemployment rate under 8%.
- The Office of National Statistics reports U.K. industrial production declined by 0.5% in June, citing an early start to seasonal drill closings in the oil and gas sector

CLOSING LEVELS FOR FRIDAY AUGUST 6th.

WEEKLY CHANGE

Dow Jones Industrial Average	10,653.60	+ 187.70 points
Spot Gold Bullion (December)	\$1,205.30 (U.S.)	+ \$23.60 per ounce
S&P/TSX Composite	11,800.00	+ 86.60 points

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