

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

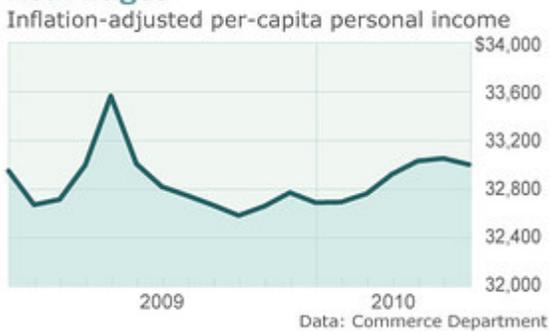


Monday, August 30TH

The Commerce Department reports U.S. consumer spending rose by 0.4% in July while personal income increased by 0.2%. Separately, the Commerce Department reported the savings rate for U.S. households declined to 5.9% in July from 6.2% in June.

MONDAY, AUGUST 30TH

Real wages



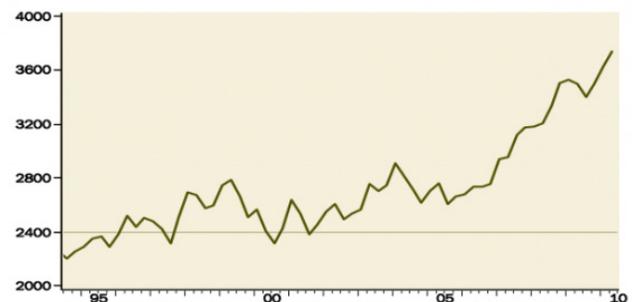
- Statistics Canada reports the country's current account deficit widened to \$11.02 billion (CAD) in the 2nd. quarter from an upwardly revised 1st. quarter deficit of \$8.46 billion (CAD), previously reported as \$7.82 billion (CAD); citing a decline in shipments of energy products and industrial goods to the United States

TUESDAY, AUGUST 31ST

- S&P/Case-Shiller reports it's Home Price Index rose by 3.6% over the 12 months ended June 30th. Home prices climbed by 4.4% in the second quarter, following a decline of 2.8% in the first quarter. David Blitzer, chairman of the index committee at Standard & Poors, commented: "While the numbers are upbeat, other more recent data on home sales and mortgages point to fewer gains ahead." The chart depicted below from Economist David Rosenberg reveals just how ugly the U.S. housing market remains.

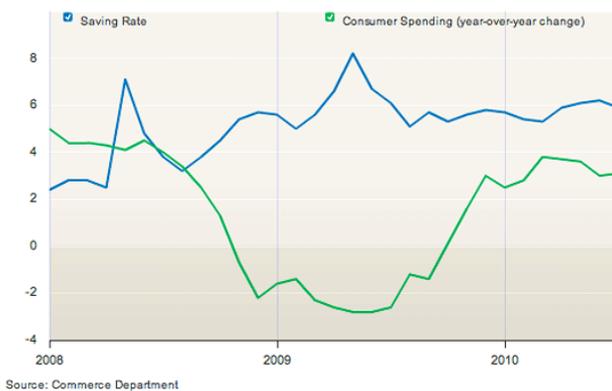
CHART 8: "SHADOW" HOUSING INVENTORY AT 3.7 MILLION UNITS

United States: Vacant Year-Round Housing Units Held Off the Market For Other Reasons (thousands)



Source: The Conference Board, Gluskin Sheff

Saving Rate vs. Consumer Spending



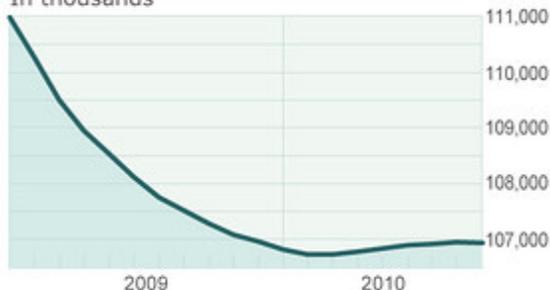
- In its quarterly report, the Federal Deposit Insurance Corp. (FDIC) reveals banking industry profits totaled \$21.6 billion (U.S.) in the 2nd. quarter, an increase from \$18 billion (U.S.) in the first quarter. At a briefing, FDIC Chair Sheila Bair stated: "Given economic uncertainties, we believe all banks should continue to exercise caution and maintain strong reserves." Regulators are closing U.S. banking institutions at the fastest pace since 1992, seizing 45 lenders in the second quarter and 118 in total in the first half of 2010; amid loan losses stemming from the credit crisis.
- The Conference Board reports its U.S. consumer confidence index rose to a reading of 53.5 in August from a level of 51.0 in July, citing lower gasoline prices fueled some optimism
- The Institute for Supply Management – Chicago reports its business activity index declined to a reading of 56.7 in August from a level of 62.3 in July.
- Data compiled by Bloomberg News reveals that analysts have raised their 2011 price forecasts for gold bullion. The most widely held option on gold futures traded in New York is for \$1,500 per troy ounce by December, 2010, or 18% more than the record \$1,266.50 (U.S.) reached on June 21st. Eugen Weinberg, an analyst at Commerzbank AG in Frankfurt, expects gold to rise in price to \$1,400 (U.S.) per troy ounce next year, citing: "A stronger (global) economy would create more jewelry demand. If the (global) economy stays weak or worsens, then investors will be looking for a safe haven."
- California lawmakers reject competing budget proposals by Republicans and Democrats, as they remain at odds how to close a \$19.1 billion (U.S.) deficit and keep the State from running short of cash in September. Republicans led by Governor Schwarzenegger want to dismantle the State's main welfare program and cut \$12.4 billion (U.S.) of spending. Democrats proposed \$5.9 billion (U.S.) in higher levies combined with spending cuts. California hasn't had a budget since the fiscal year began on July 1st. State Controller John Chiang has warned he may need to issue IOUs to pay bills for the second straight year, if the budget stalemate continues well into September. Rating agency Standard & Poors has warned it may cut California's 'A' (Low) credit rating, the lowest among all states, if the crisis worsens.
- India reports its gross domestic product (GDP) grew at an annual rate of 8.8% in the 2nd. quarter, citing accelerating increases in its manufacturing, mining and services sectors
- Statistics Canada reports the Canadian gross domestic product (GDP) grew by 2.00% in the 2nd. quarter, citing a widening current account deficit; as well as reduced spending by consumers and governments
- The Bank of Nova Scotia reports net earnings of \$1.06 billion (CAD) in its third fiscal quarter ended July 31st. compared to a profit of \$931 million (CAD) in the same period a year ago. A 35% decline in profits at the Scotia Capital division to \$305 million (CAD) was offset by stronger earnings at the Canadian retail banking division and smaller provisions for loan losses.
- The U.S. Federal Reserve's Open Market Committee (FOMC) discloses the minutes of its latest meeting, revealing some Fed officials saw increased risk to economic growth, but indicated they were not prepared to resume large scale asset purchases (quantitative easing)
- In a letter to investors, Daniel Loeb, Wall Street founder of the \$3.3 billion (U.S.) Third Point hedge fund, warns "America faces a crisis of leadership" that is damaging the country's economic recovery. Mr. Loeb remarked that the Obama administration's policies appear intent on "redistribution (of wealth) rather than (economic) growth and should send a chill through those who believe in free markets." Mr. Loeb pinpoints the "politically-laced" lawsuit launched by the regulator Securities & Exchange Commission (SEC) against Goldman Sachs last April, as the moment that investors began to lose confidence in the Obama administration. Mr. Loeb added: "So long as our leaders tell us that we must trust (them) to regulate and redistribute our way back to prosperity, we will not break out of this economic quagmire."
- Japanese National Airline JAL plans to cut 16,000 jobs worldwide, abandon nearly 50 routes and ground more than 100 aircraft; as it struggles to formulate a restructuring plan. The carrier, which filed for bankruptcy protection in January with 16 billion U.K. pounds of debt, aims to divest of a third of its global work force under a plan which has the support of the Japanese government.
- The City of Miami, Florida is operating under a state of "fiscal urgency" declared earlier this summer, since the City's budget deficit for fiscal 2011 totals about \$110 million (U.S.). The State is considering layoff notices to 1,000 employees; thereby, about \$86 million (U.S.) in savings could accrue to the City via cuts in salaries, pension contributions and health insurance costs.

WEDNESDAY, SEPTEMBER 1ST

- ADP reports U.S. private sector employment fell by 10,000 jobs in August, citing declines in the construction and manufacturing sectors of the economy

Private-sector employment

In thousands



Data: ADP/Macroeconomic Advisors

- The Institute for Supply Management (ISM) reports its diffusion index of factory activity rose to a reading of 56.3 in August from a level of 55.5 in July. The ISM factory index reflects a broadly-based survey of purchasing managers regarding the level of manufacturing activity on a monthly basis

ISM manufacturing index

Readings above 50 indicate expansion



Data: Institute for Supply Management

- According to Desrosier Automotive consultants, Canadian auto sales were essentially flat in August, with big vehicles like SUVs and pickup trucks dramatically outselling smaller cars amid a spate of consumer incentives
- U.S. vehicle sales by General Motors, Ford Motor and Toyota Motor declined in August by 7%, 5% and 12%, respectively. Jeff Schuster, executive director of global forecasting for J.D. Power & Associates commented: "There hasn't been enough horsepower behind the (economic) recovery to motivate consumers to regain their confidence and purchase vehicles at a higher rate."
- China's purchasing manager's index rose to a reading of 51.7 in August from a level of 51.2 in July. Separately, an index compiled by the Hong Kong & Shanghai Bank (HSBC) climbed to a reading of 51.9 in August from a level of 49.4 in July.

- According to a quarterly poll by specialized staffing firm Robert Half International (RFI), 29% of U.S. legal firms anticipate hiring additional staff in the 4th. quarter. In addition to litigators and bankruptcy and foreclosure experts, law firms also need legal secretaries, paralegals and clerks. In a statement, RFI senior district president commented: "There's no question that 2010 has been and continues to be the year for litigation, bankruptcy and foreclosure firms."
- In a federal court filing, The U.S. Securities & Exchange Commission (SEC) charges Stephen Goldfield, a former hedge fund manager, with making a \$14 million (U.S.) profit based on insider information. The SEC alleges Mr. Goldfield profited from illegal trading ahead of the \$15.6 billion (U.S.) takeover of Medimmune by AstraZenica; then ultimately lost all the profits by aggressively trading in options.

THURSDAY, SEPTEMBER 2ND

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 6,000 to 472,000 in the week ended August 28th. from an upwardly revised 478,00 previously reported as 472,000. Continuing claims fell by 23,000 to 4.46 million in the week ended August 21st.
- The National Association of Realtors reports U.S. pending home sales rose by 5.2% in July from downwardly revised June levels

Pending home sales

100 = average 2001 level of contract activity



Data: National Association of Realtors

- The European Central Bank (ECB) leaves its key lending rate unchanged at 1%
- Retail Metrics Inc. reports U.S. retailers experienced modestly higher sales in August, citing tax holidays and back-to-school discounts
- Burger King Holdings Inc. accepts a takeover offer from New York investment firm 3G Capital valued at \$3.3 billion (U.S.)

- The Toronto-Dominion Bank reports a net profit of \$1.18 billion (CAD) in its 3rd. fiscal quarter ended July 31st. citing lower provisions for loan losses and a record quarter at its Canadian retail bank operations
- In a new research paper, the International Monetary Fund (IMF) reports the world's most developed economies face record levels of debt as a result of the 2008-9 financial crisis and have little room for maneuver. The IMF warned that while "public debt had served for decades as the ultimate shock absorber – rising in bad times, but not declining much in good times. As their populations age, rich countries will face more financial pressure, so there should be fiscal adjustment, but it cannot be too abrupt. The current environment of low interest rates, which has so far kept debt service payments under control in G-7 economies despite surging deficits and debt levels, provides a window of opportunity to set the adjustment process in motion."
At Longwave Analytics, while we applaud this IMF warning as paved with good intentions, we very much doubt it will be heeded by the world's largest debtor nation – the United States of America. With U.S. mid-term elections exactly two months on the horizon and with the latest polls citing a 10 percentage point lead for the Republicans; we believe that political gridlock in the U.S. Capitol will soon be a reality. In that circumstance, it is quite probable that the U.S. government will miss its "window of opportunity" and keep sailing deeper and deeper into debt.
- The Royal Bank of Scotland (controlled by the U.K. government) announces 3,500 job layoffs and the closure of 10 offices in Britain to reduce costs. The job cuts represent about 2% of the remaining work force and will affect staff members working in its administration and technology sectors.

FRIDAY, SEPTEMBER 3RD

- In an undated report published in the Chinese Securities Journal, the Chinese Government reveals the breakdown of its \$2.45 trillion (U.S.) total foreign currency reserves, citing 65% held in U.S. dollars; 26% in euros; 5% in British pounds and 3% in Japanese yen. In a related article, Hu Xiaolian, central bank deputy governor, wrote of the potential risks to China's foreign exchange reserves from a loss of confidence in the U.S. dollar: "Once a reserve currency becomes unstable, there will be quite large depreciation risks for assets (denominated in U.S. dollars). A diversified international currency system will be more conducive to international economic and financial stability."
During the past several months, there have been unconfirmed reports of some foreign currency diversification by Beijing; notably out of U.S. dollars into the South Korean won. At Longwave Analytics, given the accolades showered on the Chinese by the media for their foreign currency management, we are rather alarmed to witness China's high concentration in the U.S. greenback. We think this 65% U.S. dollar holding should be reduced by 30% and replaced with the following: 15% Canadian dollar; 10% Norwegian krone and 5% Swiss franc.
- The Labor Department reports U.S. non-farm payroll jobs declined by 54,000 in August, while the unemployment rate rose marginally to 9.6% from 9.5%.

CLOSING LEVELS FOR FRIDAY SEPTEMBER 3RD	WEEKLY CHANGE
Dow Jones Industrial Average	10, 447.90 + 297.20 points
Spot Gold Bullion (December)	\$1,251.10 (U.S.) + \$13.20 per ounce
S&P/TSX Composite Index	12,144.90 + 265.20 points

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