

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS



Monday, February 28TH

The Commerce Department reports U.S. consumer spending rose by 0.2% in January, the smallest gain since June 2010, citing higher gasoline prices and high unemployment

MONDAY, FEBRUARY 28TH

- India's gross domestic product (GDP) grew at an annual rate 8.2% in the 4th. quarter of 2010, following an 8.9% growth rate in the 3rd. quarter, citing a slowdown in the manufacturing sector in the wake of a series of interest rate increases by the central bank
- The Institute for Supply Management-Chicago Inc. reports its U.S. business activity index rose to a reading of 71.2 in February from a level of 68.8 in January, citing increased business investment in new equipment and improving exports
- Wisconsin Governor Scott Walker issues an ultimatum to the 14 state Senate Democrats blocking a vote on a bill that would restrict public workers' collective bargaining rights, saying the state would lose its chance to refinance \$165 million (U.S.) of bonds if the bill wasn't passed by Tuesday: "Failure to return to work and cast their votes will lead to more painful and aggressive spending cuts in the very near future. This is the Senate Democrats' 24-hour notice." Senator Fred Risser, a Democrat, responded: "The bond threat is not going to scare us one way or another. The 14 of us are still united. We haven't developed any exit strategy at this time. My colleagues are talking to Republicans about trying to reach a compromise on the standoff. I suspect there will be an understanding sooner or later."
- In a lengthy interview with the Wall Street Journal, Japan's central banker Masaaki Shirakawa reveals the Bank of Japan, far from being timid from fighting deflation, has used innovative policies later followed by other countries. However, the policies don't always work because a declining population limits Japan's consumer spending: "I have a lot of frustration with simplistic criticism. The Bank of Japan has been a lonely forerunner that has implemented novel, innovative measures in a large scale manner. When we announced these measures, they attracted little attention or were considered as bizarre measures. However, in retrospect, the so-called credit easing adopted by the Federal Reserve is essentially the same as what we did in the early 2000's. I'm not saying that monetary policy is not important and we are making every effort to overcome deflation. What I'm saying is that Japan's deflation can't be solved by a massive increase in the monetary base alone. Those efforts have to be complemented by other structural measures. I am trying to reverse Japan's decrease in economic metabolism."
- Blackstone Group LP, the world's largest private equity firm, agrees to purchase Centro Properties Group's 588 American shopping malls for \$9.4 billion (U.S.), based upon valuations as at December 31, 2010. According to Real Capital Analytics Inc. – a New York based real estate research firm – defaults on U.S. commercial real estate mortgages held by American banks, declined in the 4th. quarter of 2010 from the 3rd. quarter, the first drop in almost five years.

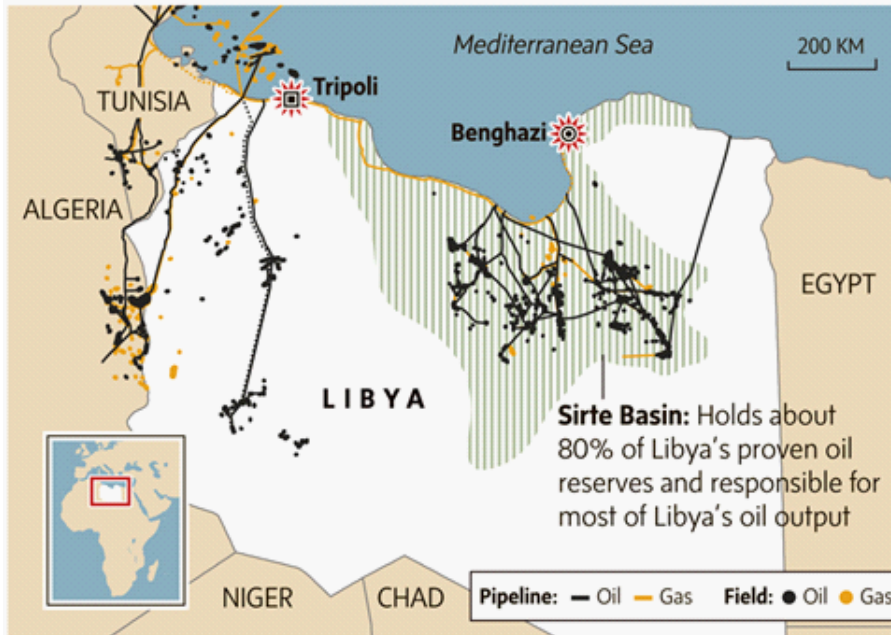
- According to the Washington Post, the threat of a government shut-down receded late on Friday, as Senate Democrats tentatively embraced a Republican plan to immediately cut \$4 billion (U.S.) in federal spending by targeting programs that President Obama has already marked for elimination. The Republican proposal would keep the government operating only until March 18th. – a shorter time extension than Democrats are seeking.

TUESDAY, MARCH 1ST

- The Tempe, Arizona-based Institute for Supply Management's U.S. factory index increased to a reading of 61.4 in February from a level of 60.8 in January, citing higher production levels and increased hiring of workers
- The Commerce Department reports U.S. construction spending fell by 0.7% in January, bringing the value of all projects down to a \$791.8 billion (U.S.) – the lowest level for commercial projects in 17 years – citing construction of power plants, hospitals, hotels and office buildings declined as tight credit conditions and high vacancy rates restrained investment
- The Bank of Canada keeps its Bank Rate for overnight loans to the chartered banks unchanged at 1%. In a statement, Bank of Canada Governor Mark Carney commented: "There is early evidence of a recovery in net exports, supported by stronger U.S. activity and global demand for commodities. Exporters still face considerable challenges from a currency trading near a 3-year high and poor relative productivity. Any further reduction in monetary policy stimulus would need to be carefully considered. The (economic) recovery in Canada is proceeding slightly faster than expected and there is more evidence of the anticipated rebalancing of demand from stimulus measures and consumer spending, to exports and business investment." Michael Gregory, a senior economist at BMO Capital markets in Toronto observes: "I don't see any step (by Mr. Carney) toward the hawkish side. The (Bank of Canada's) statement was an acknowledgement of what's on the ground already." Wake-up call for Mr. Carney: If you were so concerned about the challenges facing Canadian exporters, why did you raise the Bank Rate three times in 2010? Better get used to the Canadian dollar trading at a premium to the U.S. dollar for a protracted period of time – well beyond the day when America loses 1) her 'AAA' sovereign debt rating, 2) her world reserve currency status 3) her ability to borrow money at historically reasonable rates of interest; all leading to defaults on the principal and interest of her outstanding debt.
- The Nuremburg-based Federal Labour Agency reports the number of Germans now unemployed declined by a seasonally adjusted 52,000 to 3.07 million, the lowest since September 1992. Aline Schuiling, an economist at ABN Amro Bank in Amsterdam, commented: "The labour market recovery, which started around the middle of 2009, is continuing at an unabated pace as the German economy is powering ahead. Germany remains the star performer of the eurozone."
- Testifying before the Senate Banking Committee, Federal Reserve Chairman Ben Bernanke delivers his strongest warning to date about the Congressional delay in dealing with the U.S. fiscal deficit and national debt: "It's really a very worrisome situation and the single biggest issue facing the U.S. economy. It presents a clear and present danger" that could result in a financial crisis on a scale comparable to the global economic downturn in 2008. Mr. Bernanke's message to lawmakers is twofold: draft a rigorous debt-reduction program, but delay its implementation until the U.S. economy is comfortably back on track: "If it became clear that these problems were not going to be adequately addressed because we were just in a perpetual (political) gridlock, I think that would raise significant concerns and bring these problems forward into the present." Wake-up call for Mr. Bernanke: To quote Henny Penny 'the sky is already falling.' If complacent members of Congress think the U.S. debt problem can be solved solely through future GDP growth, they're dreaming in technicolour. Faced with the reality of \$100 plus barrel of crude oil and the prospect of a decade of mega-deficits, assures America of an economic adventure trip down the river of no return. See also, Winter Warning, September 14, 2009 – Behold a Pale Horse and He Who Sat Upon Him Was Named Death, and Hell Followed With Him
- General Motors, Toyota and Nissan each reports substantial gains in U.S. vehicle sales in February, powering the American auto industry to its strongest sales pace in 18 months
- Global crude oil prices continue to rally due to Libya's infighting, with West Texas Intermediate (WTI) crude oil futures contracts nearing \$100 (U.S.) per barrel on the New York Mercantile Exchange. Brent crude oil, the European benchmark, climbed to \$115.35 (U.S.) a barrel, having retreated from the \$120 (U.S.) level of last week. The price of crude oil is rising, not only, because of Libyan protests, but also, due to fear the turmoil will spread throughout the Middle East.

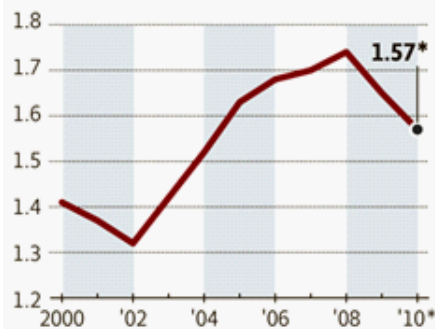
Libya's oil & gas resources

Libya, a member of OPEC, holds the largest proven oil reserves in Africa – 44 billion barrels of oil and slightly over 54 trillion cubic feet of natural gas.



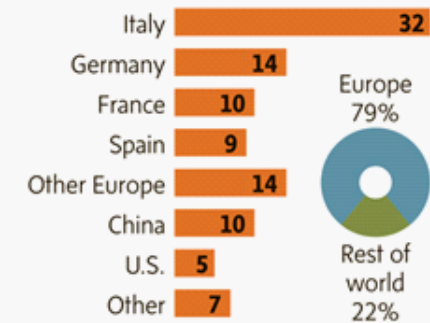
LIBYA'S CRUDE OIL OUTPUT

In million barrels per day



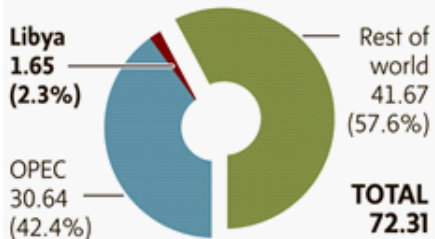
LIBYA'S OIL EXPORTS

By destination, in 2009, in per cent



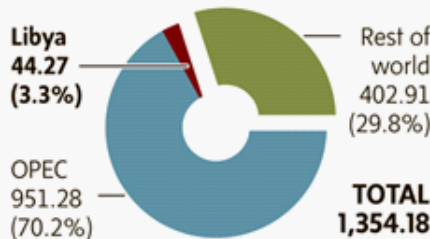
WORLD CRUDE OIL OUTPUT

In million barrels per day, 2009



PROVED RESERVES

Crude oil, in billion barrels, 2010



Note: Percentages may not add up to 100% due to rounding * Data from Reuters survey

THE GLOBE AND MAIL » SOURCES: WORLD ENERGY ATLAS; U.S. EIA; THOMSON REUTERS

- The U.S. Securities and Exchange Commission (SEC) charges Rajat Gupta, a former director of Goldman Sachs, of participating in a vast insider trading scheme which led to illicit gains of \$15 million (U.S.) for Galleon Group hedge funds. Robert Khuzami, the SEC Director for the Division of Enforcement, elaborated: "Mr. Gupta was honoured with the highest trust of leading public companies and he betrayed that trust by disclosing their most sensitive and valuable secrets."
- In a massive study of overlapping and duplicable programs which cost taxpayers billions of dollars each year, the U.S. Government Accountability Office (GAO) uncovers 15 different agencies overseeing food safety laws, at least 20 separate programs to assist the homeless and 80 programs for economic development. The GAO report compiles a list of redundant and potentially ineffective federal programs that could serve as a template for lawmakers in both parties, as they move to cut federal spending and consolidate programs to reduce the deficit. The GAO examined numerous federal agencies, including the departments of defense, agriculture and housing and urban development; pointing to instances where different arms of the government should be coordinating, or consolidating efforts in order to save taxpayers' money. The report stated: "Reducing or eliminating duplication, overlap, or fragmentation could potentially save billions of tax dollars annually and help agencies provide more efficient and effective services. For example, policy makers should consider creating a single food-safety agency because of a number of redundancies."

WEDNESDAY, MARCH 2ND

- ADP Employer Services reports U.S. private sector employment increased by 217,000 jobs in February, following a revised gain of 189,000 in January
- Jim Flaherty, Canada's Minister of Finance, sets March 22nd. as the date he will release his budget for the fiscal year ending March 31, 2012
- Bombardier Inc. announces it will sell at least 50 aircraft – and possibly as many as 120 – to Warren Buffet's NetJets Inc. in a deal which could be worth \$6.7 billion (U.S.). In an interview on CNBC, Mr. Buffet explained: "The purchase of 120 jets represents the largest purchase in the history of private aviation. We have committed huge amounts in the anticipation of demand that will occur over the next 10 years."
- Statistics Canada reports the nation's producer price index rose by 0.2% in January, citing the strong Canadian dollar helped to moderate auto prices, offsetting higher prices for energy products
- In a new report, Roubini Global Economics warns there could be \$100 billion (U.S.) of municipal bond defaults in America over the next 5 years, citing: "State and local debt problems are neither systemic in nature, nor will they infect the financial system. Most of the defaults will occur among special government projects and revenue generating entities that aren't considered viable. So, (municipal) defaults will continue to be isolated events."
- The U.S. Federal Reserve's most recent survey of regional economies, colloquially known as the Beige Book, reveals: "Reports from the 12 Federal Reserve Districts indicated that overall economic activity continued to expand at a modest to moderate pace in January and early February. Residential real estate improved slightly but Districts reported home sales and construction remain at low levels. Several areas indicated improvement in commercial real estate sales and leasing. Manufacturers in a number of Districts reported having a greater ability to pass through higher input costs to customers."
- In an appearance before the Senate Foreign Relations Committee, Secretary of State Hillary Clinton appeals to its members to keep State Department funding intact: "The United States is in the unbelievable position of competing with China for influence over countries in the Pacific, with Exxon Mobil's \$15 billion (U.S.) development of Papua New Guinea's huge natural gas reserves one of the key issues at stake. China is in there every day in every way, trying to figure out how it's going to come in behind us, come in under us. The Chinese are expending enormous amounts of money; they have a huge diplomatic presence across the Pacific. We are missing in action."
Wake-up call for Secretary Clinton: Surely, Madam Secretary, you do understand that all the proposed spending cuts by the Republican camp represent a sign of the times. No one federal government department or agency can be afforded 'sacred cow status' amid these turbulent deficit and debt-riddled times in America.

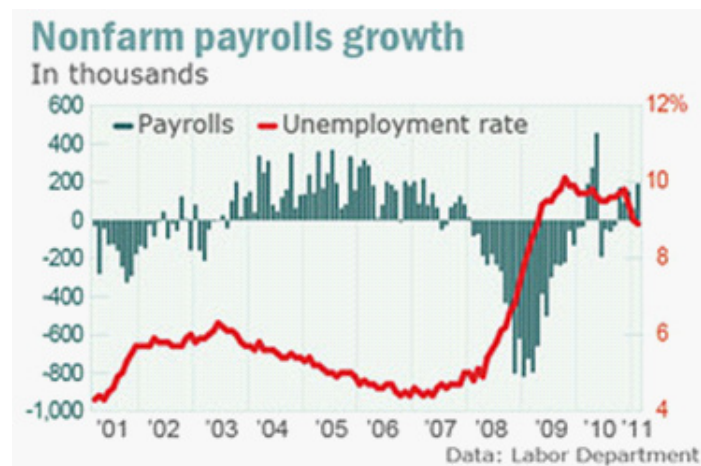
THURSDAY, MARCH 3RD

- The Institute for Supply Management's index of U.S. non-manufacturing businesses increased to a reading of 59.7 in February from a level of 59.4 in January

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 20,000 to 368,000 in the week ended February 26th. – the fourth drop in the last five weeks; while continuing claims fell by 59,000 to 3.77 million in the week ended February 19th. Those people who have exhausted their benefits and are now collecting emergency and extended payments under federal government programs, increased by 57,000 to 4.5 million in the week ended February 12th.
- At a press conference in Frankfurt, European Central Bank (ECB) President Jean-Claude Trichet exclaimed: “An increase in (administered) interest rates at the next meeting (in April) is possible (to counter inflationary pressures. While) strong vigilance is warranted, any (such) move would not necessarily mean the start of a new series. There is a strong need to avoid second-round effects,” meaning when companies raise prices and workers demand more pay to compensate for soaring food and energy costs, thereby stimulating even faster inflation. Natascha Gewaltig, chief European economist at Action Economics in London, who has forecast the ECB would tighten monetary policy in the first half commented: “The ECB will hike (administered) interest rates by 25 basis points in April and I wouldn’t be surprised to see another increase in September or October. Inflation expectations are picking up and that’s a clear signal for rate setters.”
- The Toronto Dominion Bank-Canada Trust reports a profit of \$1.54 billion (CAD) in the 1st. quarter ended January 31st. compared to a profit of \$1.3 billion (CAD) a year ago and raises its annual dividend by 5 cents to 66 cents per share
- In an interview with the Wall Street Journal, U.S. House Speaker John Boehner expressed his determination to offer a budget this spring that curbs Social Security and Medicare, despite the political risks. Mr. Boehner acknowledged: “Americans aren’t yet ready to embrace far-reaching changes to Social Security and Medicare because they aren’t aware of the magnitude of the financial problems. People in Washington assume that Americans understand how big the problem is, but most Americans don’t have a clue. I think it’s incumbent upon us, if we are serious about dealing with the big challenges, that we go out and help Americans understand how big the problem is that faces us. Once they understand how big the problem is, I think people will be more receptive to what the possible solutions may be.” Good luck to you, Mr. Boehner!
- The Royal Bank of Canada reports a profit of \$1.84 billion (CAD) in the 1st. quarter ended January 31st. compared to a profit of \$1.5 billion (CAD) in the same period a year ago, citing record earnings at its Canadian branches; as well as its capital markets and wealth management divisions. Chief Executive Officer Gordon Nixon commented: “RBC had an exceptional start to the year. We grew our earnings across our segments, demonstrating the strength and diversification of our businesses and the earnings power of this organization.”
- Chicago-based Challenger, Gray & Christmas Inc. reports U.S. planned firings rose by 20% to 50,702 in February from February 2010 – the first year-over-year increase since May 2009 – as announcements at federal, state and municipal government offices almost tripled from last year. Chief Executive Officer John Challenger commented: “More job cuts at the federal level are expected in the months ahead as pressure mounts to cut (government) costs and (attempts are made) to rein in the soaring national debt. If (the price of) gasoline tops \$4.00 (U.S.) per gallon in the coming weeks, consumers may be forced to make significant changes to their spending habits. At this stage of the (economic) recovery, that could be an extremely damaging setback.”

FRIDAY, MARCH 4TH

- The Labor Department reports U.S. non-farm payrolls grew by a seasonally adjusted 192,000 in February – the fastest pace since May, 2010 – while the unemployment rate declined slightly to 8.9% from 9% in January



- The Commerce Department reports U.S. factory orders rose by 3.1% to \$445.6 billion (U.S.) in January, following an upwardly revised 1.4% increase in December, citing a massive surge in aircraft orders
- Standard & Poors (S&P) downgrades the credit ratings of four Portuguese state-owned utilities to junk status, citing their high reliance on government support “increases the risk of them not finding a rapid solution to their short term debt problems. Government support for distressed state-owned companies is increasingly constrained by difficult financial conditions which are also reflected in the weak access of Portuguese banks to external funding.” Accordingly, Rede Ferroviaria Nacional (the railway infrastructure company); Comboios de Portugal (the national train operator); Metropolitano de Lisboa the Lisbon Metro operator); and Parpublica (a state holding company); saw their long-term ratings downgraded to ‘BB’ from ‘BBB,’ placing them all below the lowest investment grade rating.
- Fitch Ratings downgrades the outlook for Spain’s sovereign debt from stable to negative
- In an interview with the Daily Telegraph, Bank of England Governor Mervyn King warns: “Britain risks suffering another financial crisis without reform of the country’s banks. Imbalances in the banking system remain and are beginning to grow again. If it’s possible (for financial services firms) to make money out of gullible, or unsuspecting customers, particularly institutional customers, (they think) that is perfectly acceptable.” Mr. King urges high street banks to take a better, longer term view towards their customers and to stop focusing on the need to “simply maximize profits next week.”
- In an interview with CNBC, billionaire real estate magnate Sam Zell warns: “I think you could see a 25% reduction in the standard of living in America if the U.S. dollar was no longer the world’s reserve currency. You’re already seeing things in the markets that are suggesting that confidence in the dollar is waning. Frankly, I think we’re at a tipping point. How could interest rates not go up? Either they go up or the dollar goes down, one or the other.” How about both, Mr. Zell?

U.S. Dollar Index Future – Spot Price Close 76.407



This index is calculated by factoring the exchange rates of six major world currencies: the euro, Japanese yen, Canadian dollar, British pound, Swedish krona and Swiss franc. This basket-of-currencies index started in 1973 with a base of 100 and is relative to this base.

- The Liscio Report, which conducts a monthly survey of states' tax receipts, cites more U.S. states underestimated receipts from withholding taxes in February compared to January, a sign that a recent rebound in state revenues may be receding: "Around the country, results were mixed."

CLOSING LEVELS FOR FRIDAY, MARCH 4TH.

WEEKLY CHANGE

Dow Jones Industrial Average	12,169.88	+ 39.43 points
Spot Gold Bullion (April)	\$1,430.20 (U.S.)	+ \$19.82 per oz.
S&P / TSX Composite	14,252.77	+ 200.64 points
10-Year U.S. Treasury Yield	3.49%	+ 8 basis points
Canadian Dollar	102.94 cents (U.S.)	+ 0.76 cent

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