

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



Monday, March 28TH

The Commerce Department reports U.S. consumer spending rose by 0.7% in February as personal income increased by 0.3%

MONDAY, MARCH 28TH

- The National Association of Realtors reports pending sales of U.S. existing homes rose by 0.2% in February, following a 2.8% decline in January
- Sales of new U.S. municipal bond issues will total only \$44 billion (U.S.) in the current quarter, less than half the new issues marketed in the same period a year ago. Retail investors, traditionally the biggest buyers of municipal debt, have fled the market fearing that many struggling states and cities could default on their obligations.
- Moody's Investors Service warns: "The JP Morgan Chase decision to be the sole provider of a \$20 billion (U.S.) bridge loan to finance AT&T's acquisition of T-Mobile USA, was an advertisement of its large funding capacity. (However,) if this translates into giving the bank an advantage in winning the mandate to underwrite AT&T's long-term bond issues to pay off the bridge facility, then it may encourage more (American) banks to assume greater single-risk exposure, which would be a credit negative for the industry, including JP Morgan."
- The Land Registry reports the average cost of a home in England and Wales declined by 0.8% to 162,215 pounds in February, down by 1.7% from February 2010
- The law offices of Marshall C. Watson agree to pay \$2 million (U.S.) in penalties to the State of Florida, to settle foreclosure fraud charges initially revealed in the fall of 2010
- The Bank of England (BOE) reports judgments by credit rating agencies are still "heavily hard-wired" into the financial system, despite considerable criticism of their role during the global credit crunch. The industry, which is dominated by the global "big three" of Moody's, Standard & Poors and Fitch has also been accused of lacking independence from the firms it rates and who pay the bills. "Nonetheless, the agencies are still built into the financial system through the use of their regulation, investment processes and financial contracts. The hardwiring of ratings is now so pervasive that market participants could not ignore them even if they did not consider them reliable. Abolishing the agencies is not an option. Other gatekeepers would emerge to fill the void with their own ratings-like research and advice. One option might be a dual approach, with regulators and fund managers considering an internal risk assessment from the borrower in question, as well as its agency rating. An S&P spokesman responded to the BOE report: "The current (business) model is the most transparent since it means our ratings are freely available to the whole market. We have made extensive changes to strengthen the quality of its ratings."
- The Commerce Department reports the U.S. savings rate declined to 5.8% in February from 6.1% in January, citing consumers are using more of their disposable income to cope with the rising cost of food and fuel

Elbowed Aside

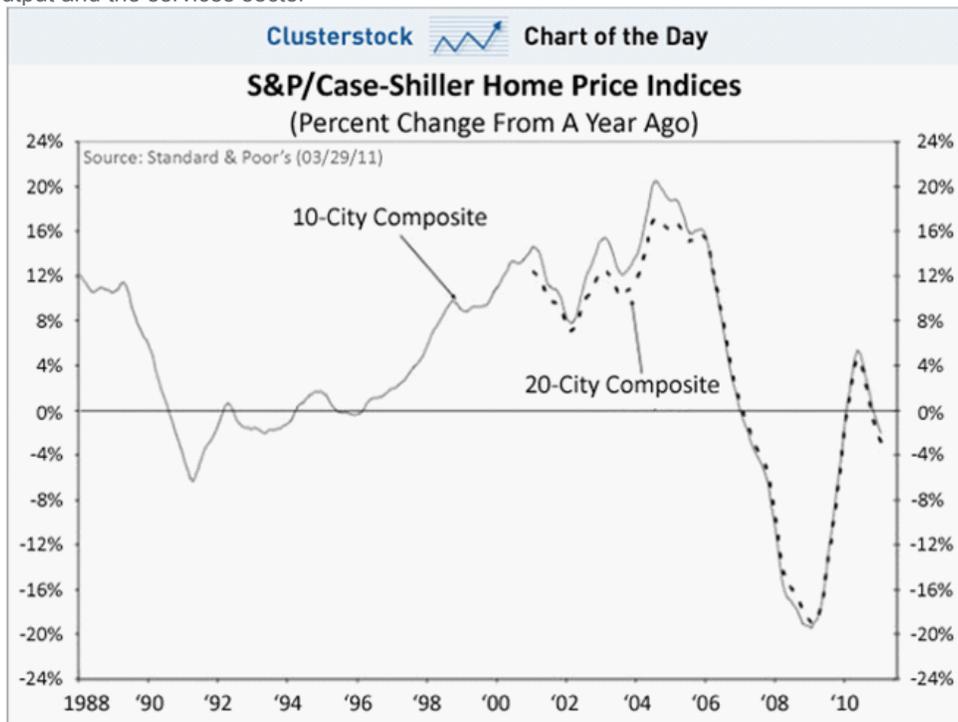
Share of U.S. consumption financed by wage and salary income.



TUESDAY, MARCH 29TH

- The Office for National Statistics (ONS) upwardly revises its U.K. gross domestic product (GDP) estimate from minus 0.6% to minus 0.5% for the 4th. quarter of 2010, citing slightly higher levels for both factory output and the services sector

- The Standard & Poors (S&P) / Case-Shiller index of twenty U.S. cities reports price declines in nineteen cities from December to January. The average prices in four of them – Atlanta, Las Vegas, Detroit and Cleveland – are at their lowest point in eleven years, as the index fell for the sixth consecutive month. David Blitzer, Chairman of the S&P Index Committee commented: “The housing market recession is not yet over and none of the statistics are indicating any form of sustained recovery.”
- Standard & Poors downgrades the sovereign debt credit ratings of Portugal and Greece to ‘BBB’ (Low) and ‘BB’ (Low) respectively, citing concerns that both countries may be forced, not only to restructure debt after seeking European aid, but also, to repay governments before other creditors: “Given Portugal’s weakened market access and its likely considerable external financing needs over the next few years, it is our view that Portugal will likely access the European Union’s current and future rescue funds. We retained a negative outlook on Greece’s sovereign debt because there are growing risks to the country’s budgetary position – the possibility of slippage. The debt figure of 2010 could be higher than 9.6% of gross domestic product (GDP).”
- The Conference Board of Canada reports its consumer confidence index declined to a reading of 83.7 in March from a level of 89.3 in February, citing responses to the question of current and future finances “were particularly worrisome.” The balance of opinion also worsened on future employment and responses to the question on major purchases trended negatively.



- The GfK Research Group reports its German consumer confidence forward-looking index declined slightly to 5.9 points for April from a revised level 6.0 points in March, citing: "Ongoing unrest in North Africa and the Middle East, as well as soaring energy and commodity prices, are the main reasons for the slight slowdown this year of the strong momentum seen in the economy in 2010."
- The U.S. Congressional Research Service (CRS) reports the Social Security Administration received ten million new claims in 2009, as a result of increased retirements and high unemployment. Since 65% of new disability claims were initially denied, a backlog of appeals ensued and administrative law judges who hear these cases were overwhelmed. Progress has been undermined by the budget impasse affecting most federal agencies. Operating without a new budget for the current fiscal year, Social Security staff has been forced to postpone efforts to improve efficiency. The agency would have received \$12.4 billion (U.S.) in the current fiscal year, however, it has operated at last year's budget level of \$11.4 billion (U.S.) for the last six months. The CRS report cites: "Extended continuing resolutions that largely fund the agency at previous year levels, appropriations below the President's budget request and (spending) cuts proposed by House Republicans, may make 'the goal of reducing the claims backlog' difficult to attain." Understatement of the week. This bureaucratic nightmare can only worsen.

WEDNESDAY, MARCH 30TH

- According to CoreLogic Inc. approximately, 1.8 million U.S. houses that are delinquent or in foreclosure, loom as a '9-month shadow inventory' for the struggling U.S. housing market
- The Province of Ontario, carrying a deficit of \$16.7 billion (CAD), announces another 1,500 job layoffs over the next two years. In a budget speech, Finance Minister Dwight Duncan unveils a plan to review of all government programs and services, after next October's election, examining every aspect of how the government spends taxpayers' money.
- A consortium of Chinese companies, including the Shougang Group – one of China's leading steel makers – plans to develop three coal mines in northeastern British Columbia on an initial investment of \$1 billion (CAD). B.C. Employment Minister Pat Bell met with Shougang executives and other consortium partners during a trade mission to Beijing this week: "The consortium already has the fiscal resources in place ... it's a very big deal."

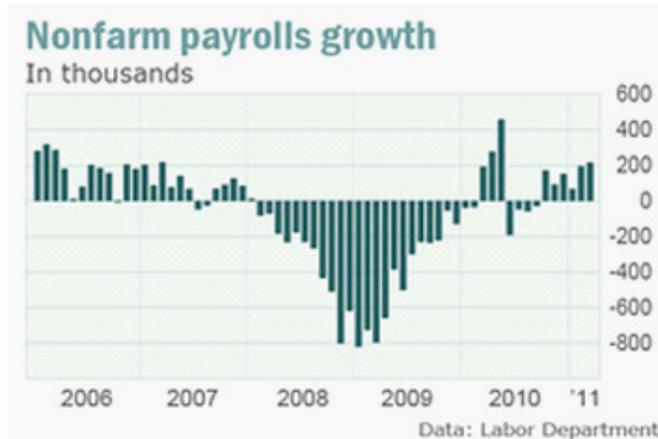
- ADP Employer Services reports U.S. private sector companies added 201,000 jobs in March, following a downwardly revised gain of 208,000 in February

THURSDAY, MARCH 31ST

- In a split decision, the Quebec Court of Appeal rules that a proposed federal law to establish a national securities regulator is unconstitutional because the federal government exceeded its legislative jurisdiction with the initiative. In the judgment, Chief Justice Michel Robert noted: "For the last 80 years, the regulation of trading in securities has been subject to the provincial jurisdiction in respect to property and civil rights in the province ... and recognized as such by various bodies, including the Supreme Court of Canada."
- Amid the latest round of "bank stress tests" the Central Bank of Ireland reports the country's banks will require an additional influx of 24 billion pounds (\$33 billion U.S.) for their rescue package, increasing the total amount to 70 billion pounds (\$100 billion U.S.); or about 43% of Ireland's 2009 gross domestic product (GDP)
- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 6,000 to a seasonally adjusted 388,000 in the week ended March 26th. while continuing claims fell by 51,000 to 3,714,000 in the week ended March 19th.
- The Commerce Department reports U.S. factory orders declined by 0.1% to \$445.99 billion (U.S.) in February – the first drop in four months. Orders for durable goods – i.e. items meant to last for at least 3 years – fell by 0.6%
- The World Trade Organization (WTO) confirms that Boeing received at least \$5.3 billion (U.S.) in improper subsidies from the U. S. government to develop its 787 Dreamliner and other jet models, giving it an unfair advantage against its European rival, Airbus
- In a press release, Moody's Investors Services warns: "The Eurozone's peripheral economies of Portugal, Greece and Ireland face further sovereign (debt credit rating) downgrades because of growing risks of defaults and rising funding costs."
- Berkshire Hathaway announces the resignation of David Sokol (an executive heir apparent to Warren Buffet) concerning his personal investment in the common stock of Lubrizol prior to Berkshire's takeover of the company for \$9 billion (U.S.)

FRIDAY, APRIL 1ST

- The Labor Department reports U.S. non-farm payrolls increased by a seasonally adjusted 216,000 in March, as the nation's unemployment rate declined slightly to 8.8% from 8.9% in January

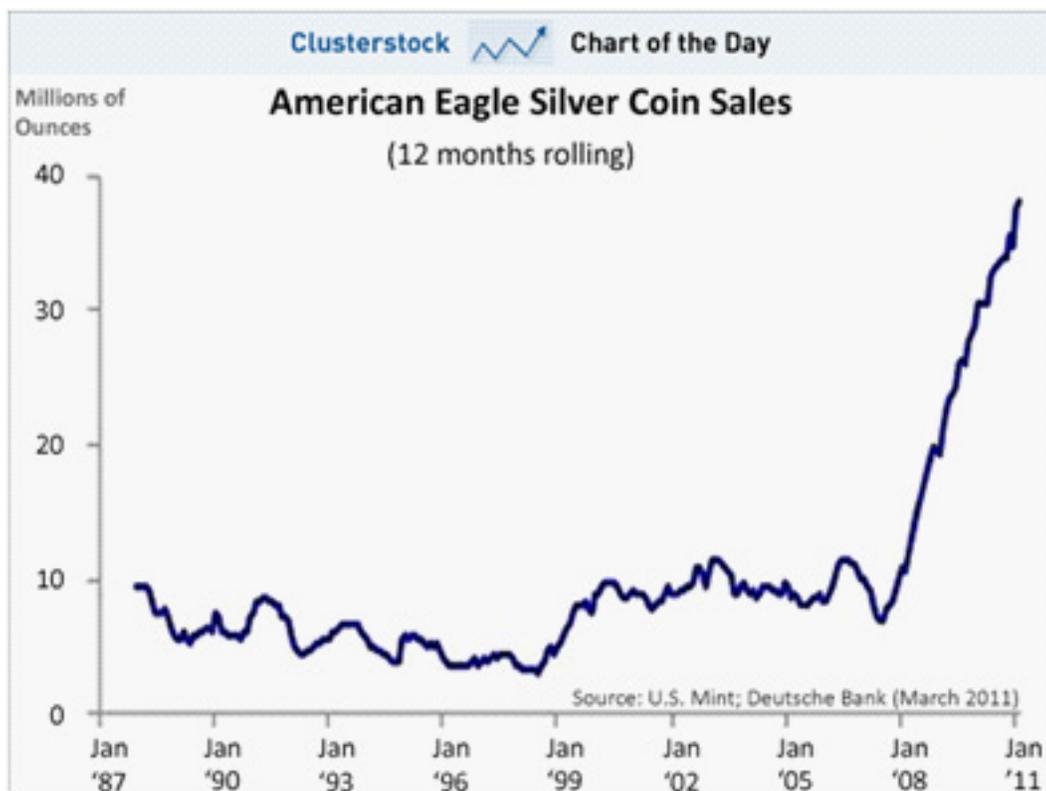


- According to Autodata, Ford Motor posted a 19% increase in vehicle sales in March with a total of 212,777, while General Motors posted a gain of 9.6% or, 206,621 total sales
- Standard & Poors (S&P) downgrades Ireland's sovereign debt credit rating to 'BBB' (High) with a stable outlook, from 'A' (Low) with a negative outlook. Meanwhile, Fitch downgrades Portugal's sovereign debt credit rating to 'BBB' (Low) from 'A' (Low).
- The southern U.S. division of the Salvation Army sues the Bank of New York Mellon for \$22 million (U.S.) alleging the bank had "grossly mismanaged" its assets by investing in mortgage backed securities and other risky investments. The lawsuit alleges: "As a result of BNY Mellon's misconduct, the Salvation Army has incurred losses and is left holding unproductive, toxic assets with extended maturity dates, the values of which have substantially declined. The Salvation Army cannot now devote those assets to its many charitable projects."

- The Commerce Department reports U.S. construction spending declined by 1.4% in February and 6.8% on a year-over-year basis, to a seasonally adjusted annual pace of \$760.6 billion (U.S.) – the lowest in over 11 years. See chart below.



- In his most recent quarterly Investment Outlook, Bill Gross, Pacific Investment Management’s (Pimco) managing director warns: “Unless entitlements (Social Security, Medicare, Medicaid) are substantially reformed, I am confident that America will default on its debt, not in conventional ways, but by picking the pockets of savers via a combination of less observable, yet historically verifiable policies – inflation, currency devaluation and low to negative real interest rates.” See also, Winter Warning, February 15, 2011 – It’s Still the Debt, Stupid
- According to a Deutsche Bank report, record sales in silver have occurred at the world’s leading mints over the past few years; with sales being rationed in some instances. Silver dealers have indicated that small investors regard silver coins as a more affordable precious metal compared to gold coins, as they look to alternative assets for wealth preservation; being concerned about the outlook for inflation and currency values. The chart below reveals the rolling 12-month demand for one ounce American Eagle silver coins; indicating sales exceeding 38 million ounces during the past 12-month period. The pace of silver coin sales over the first two months of 2011 is indicative of an annual level exceeding 54 million ounces.
- According to CreditSights Inc., a London-based independent research firm, Ireland is reiterating its threat to impose losses (“haircuts”) on senior bank bondholders in the event of default and/or debt rescheduling. According to the Central Bank of Ireland, as of February 18th. Irish banks had about 16.4 billion euros of senior unsecured bonds outstanding and another 20.9 billion euros of government guaranteed notes outstanding. John Raymond, an analyst at CreditSights commented: “The (bond market) fallout would be big and it would be bad. The senior unsecured (bond) market would shut down, at least for a while. Right now, the bigger and better Spanish and Italian banks can still access the (bond) market, but that could end.” Pressure on bondholders to share the burden of banks’ losses is also growing in Denmark, where the government inflicted “haircuts” on senior creditors and depositors of regional lender Amagerbanken A/S, which failed in 2010 after losing money on investments and real estate mortgages. Moody’s Investor’s Service responded by cutting the credit ratings of five Danish banks, including Danske Bank A/S, the country’s largest, forcing up funding costs. Wakeup Call for Irish and Danish Bankers and Finance Ministers: Look not to Canadian fixed income investors to purchase your bonds while the “haircut” rules remain embedded in your respective bank acts. We will remain invested in the debt of the Canadian banks and federal government – where such lunacy is non-existent.



CLOSING LEVELS FOR FRIDAY, APRIL 1ST.		WEEKLY CHANGE
Dow Jones Industrial Average	12,376.70	+ 156.10 points
Spot Gold Bullion (May)	\$1,428.90 (U.S.)	+ \$2.70 per oz.
S&P / TSX Composite	14,130.20	+ 90.80 points
10-Year U.S. Treasury Yield	3.45%	+ 1 basis point
Canadian Dollar	103.82 cents (U.S.)	+ 1.84 cent
U.S. Dollar Index Future (Spot Price)	75.823 cents	- 0.328 cent
WTI Crude Oil (May)	\$107.94 (U.S.)	+ \$2.54 per barrel

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