Monday April 4, 2011

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

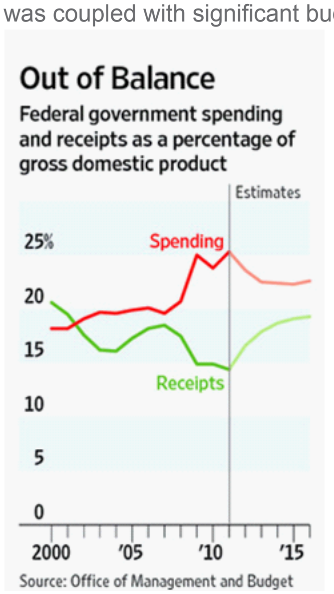
THAT WAS THE WEEK THAT WAS

Monday, April 4th

Spain's Labour Ministry reports the nation's jobless claims rose by 0.8% to 4.3 million in March – a new record high – from February, when the unemployment rate reached 20.5%

MONDAY, APRIL 4TH

- In a nine-page letter to Congress, U.S. Treasury Secretary Tim Geithner warns: "The federal government will reach its legal borrowing limit of $14.294 trillion (U.S.) no later than May 16th. and could default on its debt by July 8th. Failure to act could trigger a financial crisis potentially more severe than the crisis from which we are only now starting to recover." At the least, the government would halt or delay paying government salaries and issuing Social Security and Medicare benefits. Congress has yet to address the issue because of a disagreement between Republicans and Democrats over how to proceed. Many Republicans have flatly stated they would vote against raising the debt ceiling; with others vowing they would only vote for an increase if it was coupled with significant budget spending cuts.



- U.S. President Obama summons Congressional leaders to a White House meeting Tuesday, in an eleventh-hour attempt to agree upon another 'continuing spending resolution' and avoid a federal government shutdown on Friday. Simultaneously, sporting an approval rating of only 42%, the President announces he will seek re-election in 2012. "We lack confidence in the leadership of the socialist Obama administration, suffice to say, that we perceive the incumbent to be a one-term President." See Winter Warning, July 20, 2009 – The Scourge of Unemployment

- At a conference hosted by the Federal Reserve Bank of Atlanta, U.S. central bank Chairman Ben Bernanke discounted potential inflation threats to the American economy citing: "I think the increase in inflation will be transitory, because the (recent) sharp increase in prices for oil and food reflect global supply and demand conditions, which will eventually stabilize."

- A new report from researcher The Economist Intelligence Unit (EIU) warns: "The risk is roughly one in seven that Europe's ongoing debt crisis will push member nations to abandon the shared currency, raising the spectre of the effective end of the euro area. Attempts to restore investors' confidence in debt-laden nations' ability to honour their commitments could see the weaker euro zone members grow ever more weary of the demands placed upon them."

- The Royal Bank of Canada, the Canadian Imperial Bank of Commerce and the Canada Trust Toronto-Dominion Bank raise residential mortgage rates, with the popular 5-year fixed rate mortgage increasing by 35 basis points to 5.69%

TUESDAY, APRIL 5TH

- Moody's Investors Service downgrades Portugal's sovereign debt credit rating to Baa1 from A3 with a negative outlook, citing increased political, budgetary and economic uncertainty in the country: "Moody's believes that the government's current cost of funding is nearing a level that is unsustainable, even in the short term. A critical part of the review will focus on the ability of the government to secure financing at a less elevated level, either through the capital markets or through (European Union) support."

- House Budget Committee Chairman Paul Ryan (R-Wis.) unveils a budget plan that would cut in excess of $4 trillion (U.S.) from President Barack Obama's budget over the next decade, phase out traditional Medicare and demand a revamping of the tax code – aiming to bring the budget into balance by 2015, excluding interest payments. In an interview, Congressman Tom Cole (R-Ok.) commented: "This is a serious proposal, so we're headed towards a big debate." Understatement of the week!

- Eurostat reports retail sales in the 17-nation euro region declined by 0.1% in February, following a gain of 0.2% in January, citing higher energy costs negatively impacting consumer spending

- For the fourth time in the past five months, the People's Bank of China raises interest rates: this time its one-year yuan lending rate by 25 basis points to 6.31% and its one-year yuan deposit rate to 3.25% from 3%, aimed at reining in inflationary pressures

- Fitch Ratings upgrades Brazil's domestic and foreign currency debt credit rating to 'BBB' from 'BBB' (Low) and its sovereign debt ceiling to 'BBB' (High) from 'BBB' citing: "The upgrade reflects our assessment that the sustainable potential growth rate of the Brazilian economy (GDP) has increased to 4% – 5%, supporting the medium-term fiscal outlook and the continued strengthening of its external liquidity position, which increases the country's shock absorption capacity."

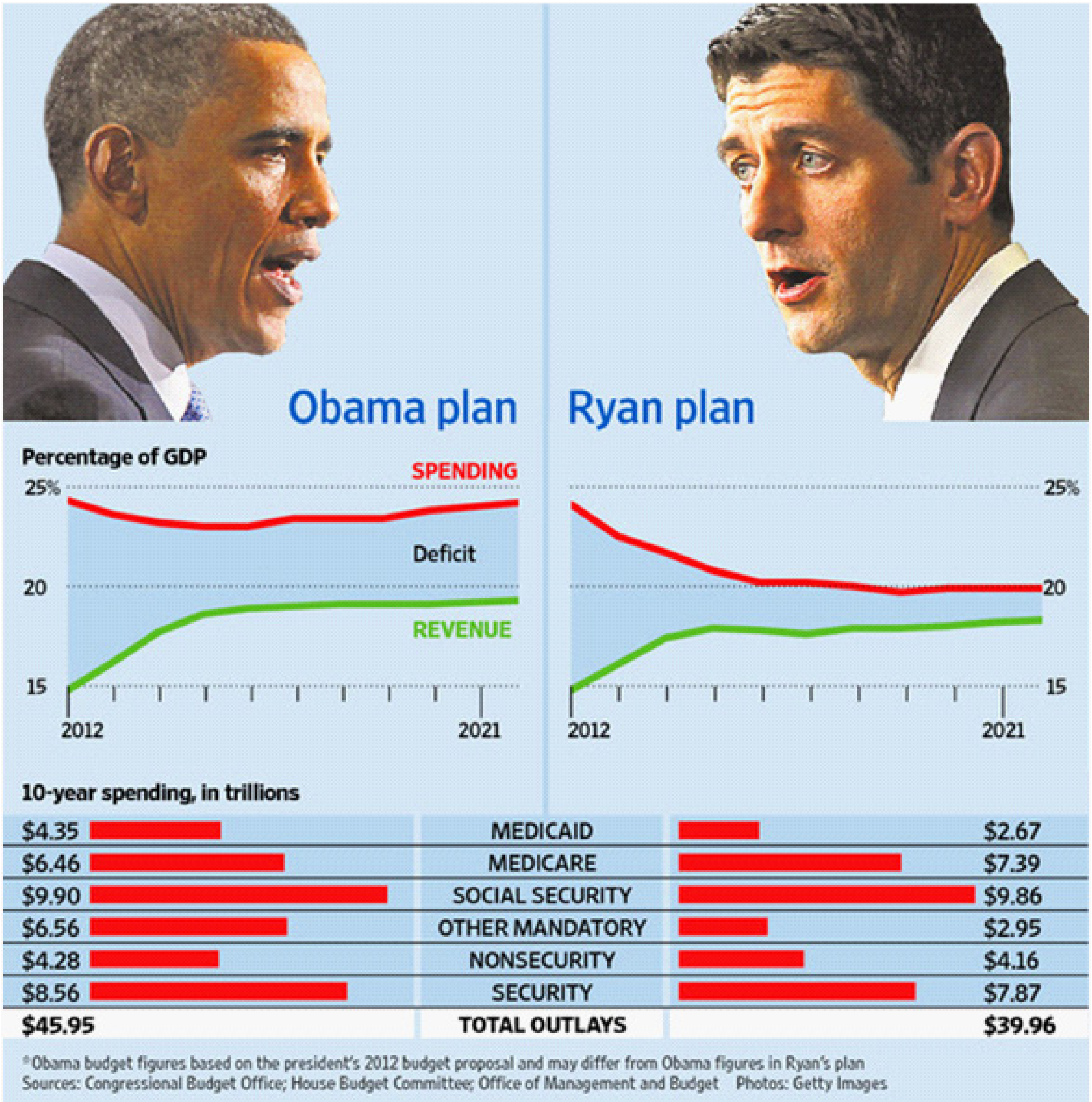
- According to the minutes of the most recent U.S. Federal Reserve Open Market Committee meeting, the Fed intends to halt its Treasury purchases upon completion of its current $600 billion (U.S.) round of quantitative easing (QE2) at the end of June

- The International Monetary Fund (IMF) announces it is developing a framework to assist countries in managing large capital inflows, as part of its ongoing work to assess the risks facing economies as they recover from the global crisis. The latest research, now endorsed by the IMF's Executive Board, was released this week in two studies: Recent Experiences in Managing Capital Inflows – Cross-Cutting Themes and Possible Policy Framework, which looks at country cases and suggests a framework of measures available to manage inflows, including macroeconomic policies, tax and prudential measures, and capital controls. The second study: Managing Capital Inflows – What Tools to Use, provides analytical underpinning to the IMF's research on the topic.

- In his current Congress Blog, Representative Ron Paul (R-TX) expounds: "We now know that the Fed's bailout had nothing to do with helping the American people, who have gotten their (economic) depression anyway with continued job losses and (home) foreclosures. But now we learn that a good deal of the money did not even help American banks … in light of recent world events, perhaps the most staggering revelation is that quite a bit of money went to the Arab Banking Corp., of which the Libyan central bank owned about a third of its stock … Also, we must consider the possibility that those loans are inadvertently financing weapons (that) Gaddaffi is using against his own people and western militaries. This would not be the first time (that) the covert activities of the Fed have undermined, not only our economy and the value of the dollar; but (also) our foreign policy ...

  As the world economy continues to falter in spite of – or rather because of – cheap credit doled out by the Federal Reserve, its ability to deceive financial markets and American taxpayers is coming to an end. People are beginning to realize that when the Fed, in effect, doubles the worldwide supply of U.S. dollars in a relatively short time, it has the effect of stealing half your money through reduced purchasing power. Rapid inflation will continue as trillions in new money and credit recently created by the Fed, flood into the commodity markets. It is becoming increasingly obvious that the Fed operates for the benefit of a few privileged banks that never suffer for the bad decisions they make. Quite the opposite – as we have seen since October 2008 – under our current monetary system, politically-connected banks are paid to make bad decisions."

- Gold bullion and silver set new record closing price highs of $1,456.10 (U.S.) and $39.42 (U.S.), respectively, as investors seek the safe haven of precious metals



- The U.S. moves closer to a government shutdown this Friday, after Republicans and Democrats failed to come to an agreement in a White House meeting with President Obama, to resolve their budget differences. A federal government closure – to occur on April 8th. in the absence of a new continuing spending resolution – would confirm the view that Washington political gridlock is capable of potentially impeding the normal functioning of the American economy.
- In a question and answer period following a speech to the Council on Foreign Relations in New York, Russian Deputy Minister Sergei Ivanov stated: "The next step to reset Russian – U.S. relations is, I'm convinced, if we want to make real progress, it should be economic development, social and of course, the investments and bilateral trade …The U.S. is Russia's eighth largest trading partner and Russia isn't even among the top 20 U.S. trading partners. Isn't that a shame? … We hope to expand our bilateral horizons in the following priority horizons – space, information technology, nuclear energy and power efficiency...

Any problems, stemming from the conflict between our two countries in 2008, are political and have nothing to do with the World Trade Organization (WTO) or (international) trade. The Obama administration is trying to facilitate (sponsor?) Russia's membership into the WTO, the organization that promotes free trade, since U.S. officials confirmed last December that the two countries have settled 95% of their outstanding issues.

Wakeup Call to U.S. President Obama: The shame should be upon you, Mr. President. Read what Hermitage Capital Founder William Browder has to relate from London, in a U.K. Telegraph editorial entitled: We Are Not Safe Doing Business in Russia. "It is a fact that there is no safety for people working in Russia and no protection of property rights. Local journalists have been attacked and killed in broad daylight, human rights activists and intellectuals are silenced, opposition leaders are detained, business competitors and professionals are wrongly accused and prosecuted and foreign whistle blowers or international journalists are deported. In today's Russia, foreign citizens are not safe to do business, in fact, the more successful you are, the more likely you are to be targeted by the corrupt regime. It does not stop at money and assets, but extends to the horror of divided families and physical violence. Turning a blind eye to this reality is not the answer.

It is time for the British government to look after the interests of its people in its dealings with Russia. Just as the Foreign Office routinely issues warnings against foreign countries where the life and liberty of British citizens will be threatened, it has a duty to issue "business warnings" as well. The Government should advise companies against doing business in countries that do not promote a safe investment environment or guarantee the rule of law and safety of citizens. Russia is a country which British companies are in constant danger of having their assets expropriated and their employees harassed, arrested and killed. There are many attractive countries in which British business could invest, however, Russia is not one of them. It's time to make that clear."

For the Sergei Magnitsky story, Justice for Sergei, see the following link: http://vod.journeyman.tv/store

See also, Winter Warning, March 28/11 – The Coming International Trade Crisis

WEDNESDAY, APRIL 6TH

- The Office for National Statistics reports U.K. manufacturing output – which excludes utilities and oil and gas extraction – registered no growth in February, following January's downwardly revised growth of 0.9%, raising fears for 1st. quarter growth

- Adrift on a budgetary Sargasso Sea, Portugal finally requests a financial bailout from the European Union (EU), following in the footsteps of Greece and Ireland. In a televised address, Portuguese Prime Minister Jose Socrates stated: "It is time to assume the responsibility to the country. It is in the name of national interest that I tell the Portuguese people that we need to take this step."

- U.S. prosecutors file charges in a New Jersey federal court against Matthew Kluger, a former mergers and acquisitions lawyer at Wilson Sonsini Goodrich and Rosati; and Garrett Bauer, a stock trader who worked for several proprietary trading firms, alleging a 17-year insider trading scheme that reaped $32 million (U.S.) in illegal profits by stealing deal information from three prominent law firms

THURSDAY, APRIL 6TH

- The Frankfurt-based European Central Bank (ECB) raises its refi rate to 1.25% from 1% in a bid to contain the 17-nation euro zone inflation rate, currently running at an annual rate of 2.6%. In a press conference, ECB President Jean Claude Trichet stated: "While monetary policy remains accommodative, it is essential that recent price developments do not give rise to broadly based inflationary pressures over the medium term."

- The Labor Department reports U.S. claims for state unemployment benefits declined by 10,000 to 382,000 in the week ended April 2nd. while continuing claims fell by 9,000 to 3.72 million in the week ended March 26th. Those people who have exhausted their traditional benefits and are now collecting emergency and extended payments under federal programs declined by 91,400 to 4.27 million in the week ended March 19th.

- Statistics Canada reports the nation's building permits rose by 9.9% to $5.8 billion (CAD) in February, citing gains in the non-residential sector in Ontario and Alberta

- The World Trade Organization (WTO) reports global exports rose by 14.5% in 2010

- Thomson Reuters reports U.S. retailers delivered solid March sales numbers, despite the challenges posed by a late Easter, poor weather and higher gasoline prices. The majority of retail chains, including Costco Wholesale Corp., Macy's Inc. and Limited Brands Inc., reported decent sales gains at stores open a year or more.

FRIDAY, APRIL 8TH

- The Canada Mortgage and Housing Corp. reports the nation's seasonally adjusted annual pace for all types of home construction increased to 188,800 units in March, compared with 183,700 units in February

- Reis Inc., a real estate researcher, reports American mall vacancies reached a national average of 9.1% in the country's top 8o markets during the 1st. quarter, their highest level in at least 11 years. Reis is predicting the vacancy rate will climb to 11.1% later this year, which would be the highest level since 1990. See also, Winter Warning, May 11, 2009 – Mauled by the Malls

- Russian Prime Minister Vladimir Putin interrupts a speech of Andrei Klepach, a deputy minister of the economy, declaring Russia should not adhere to World Trade Organization rules until the country is granted a membership. Surprise! Surprise! Russia is not worthy of a WTO membership. See Wednesday's commentary!

- Congressional leaders and the White House reach an eleventh-hour agreement for a new 'continuing spending resolution' which would cut $38.7 billion (U.S.) from the federal budget through the current fiscal year ending September 30th. While final Congressional approval next week would prevent a threatened federal government shutdown; failure to raise the national debt ceiling – currently $14.3 trillion (U.S.) – between mid-April and mid-May, would not only, cause a government shutdown, but also, create a default situation by the U.S. government on its outstanding debt, as soon as early July.

CLOSING LEVELS FOR FRIDAY, APRIL 8TH.		WEEKLY CHANGE
Dow Jones Industrial Average	12,380.00	+ 3.30 points
Spot Gold Bullion (May)	$1,474.10 (U.S.)	+ $45.20 per oz.
S&P / TSX Composite	14,208.40	+ 78.20 points
10-Year U.S. Treasury Yield	3.59%	+ 14 basis points
Canadian Dollar	104.70 cents (U.S.)	+ 0.88 cent
U.S. Dollar Index Future (Spot Price)	74.858 cents	– 0.965 cent
WTI Crude Oil (May)	$112.79 (U.S.)	+ $4.85 per barrel

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

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