

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



Monday, April 11th

Two Canadian pension funds, the British Columbia Investment Management Corp. (BCIMC) and the Public Sector Investment Pension Board (PSP), announce their takeover of TimberWest Forest Corp. for

MONDAY, APRIL 11TH

\$1.03 billion (CAD). TimberWest's Chairman, Edward Daughney, commented: "We believe this transaction provides significant value to TimberWest unitholders. BCIMC and PSP are both leading Canadian pension plans, well positioned to support the long-term development of TimberWest's exceptional timber and real estate assets and emerging new businesses."

- In an interim report, the U.K. Government's Independent Commission on Banking recommends Britain's largest banks "should have a core Tier 1 capital ratio (a measure of financial strength) of at least 10%. Rather than pursuing more radical policies towards capital or structure, the approach outlined (herein) is a combination of more moderate measures. Nevertheless, they entail costs to banks, some of which fall on the wider economy -- they will partly affect the profitability of banks, partly affect the remuneration of those who work for banks and partly affect the costs to customers and final consumers."
- Following a weekend meeting of European finance officials in Godollo, Hungary, German Finance Minister Wolfgang Schauble warned it is unclear whether Greece will need another cut in its bailout loan interest rate, or a further extension of repayment terms: "We can't say for good today whether that is enough and how this continues will have to be monitored closely."

- The General Administration of Customs reports China posted a trade deficit of \$1.02 billion (U.S.) in the 1st. quarter, citing export growth of 26.5% to \$399.64 billion (U.S.) on a year-over-year basis, but "the value of imports reached a record high \$400.66 billion (U.S.). China imported more mechanical and electrical equipment, including automobiles; as well as iron ore and soybeans whose prices were higher than last year."
- Danny Alexander, Chief Secretary to the U.K. Treasury, announces Britain will pursue Iceland through the European courts in order to recoup the money the U.K. government paid out in compensation to British savers when the Icelandic bank Icesave collapsed in 2008: "Obviously, it's disappointing (but) it seems the people of Iceland have rejected what was a negotiated settlement."
- Sergey Ivanov, Russia's deputy prime minister, demands "red button" rights to a new U.S.-backed missile defense shield for Europe, enabling Russia to influence the system's daily operation: "In practical terms, that means our office will sit in Brussels and agree on a red button push to launch an interceptor missile, regardless of whether the missile is launched from Poland, Russia or the U.K." Mr. Ivanov: Napoleon Bonaparte's invasion of Russia was unsuccessful in 1812, as was Adolf Hitler's in 1941 -- what makes you believe the Ayatollah Khomeini would fare any better in 2011?

TUESDAY, APRIL 12TH

Penalty Box

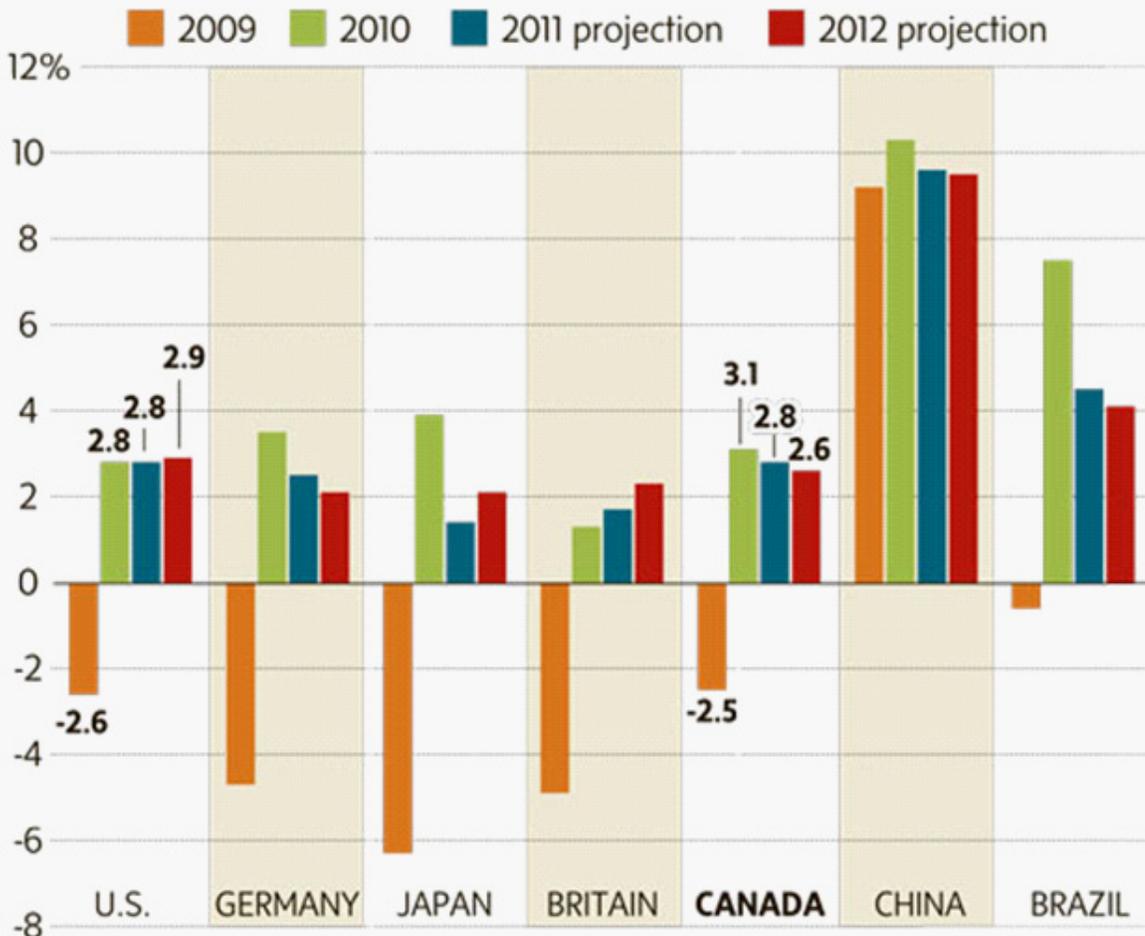
Top investor arbitration awards against major brokerage firms

Date	Brokerage	Investor	Investment	Award (millions)
2009	Credit Suisse	STMicroelectronics	Auction rate securities	\$406.6
2010	UBS	Kajeet	Auction rate securities	\$80.8
2011	Citigroup/Smith Barney	Gerald Hosier, Jerry Murdock Jr.	Leveraged muni bond fund	\$54.1
2002	Credit Suisse	Irwin Jacobs group	AremisSoft stock	\$31.2
2009	Merrill Lynch	Masonic Hall Trustees	Managed futures fund	\$30.6

Sources: Securities Arbitration Commentator Inc.; Finra

WORLD ECONOMIC OUTLOOK

Selected countries, year-over-year percent change



CARRIE COCKBURN/THE GLOBE AND MAIL » SOURCE: INTERNATIONAL MONETARY FUND

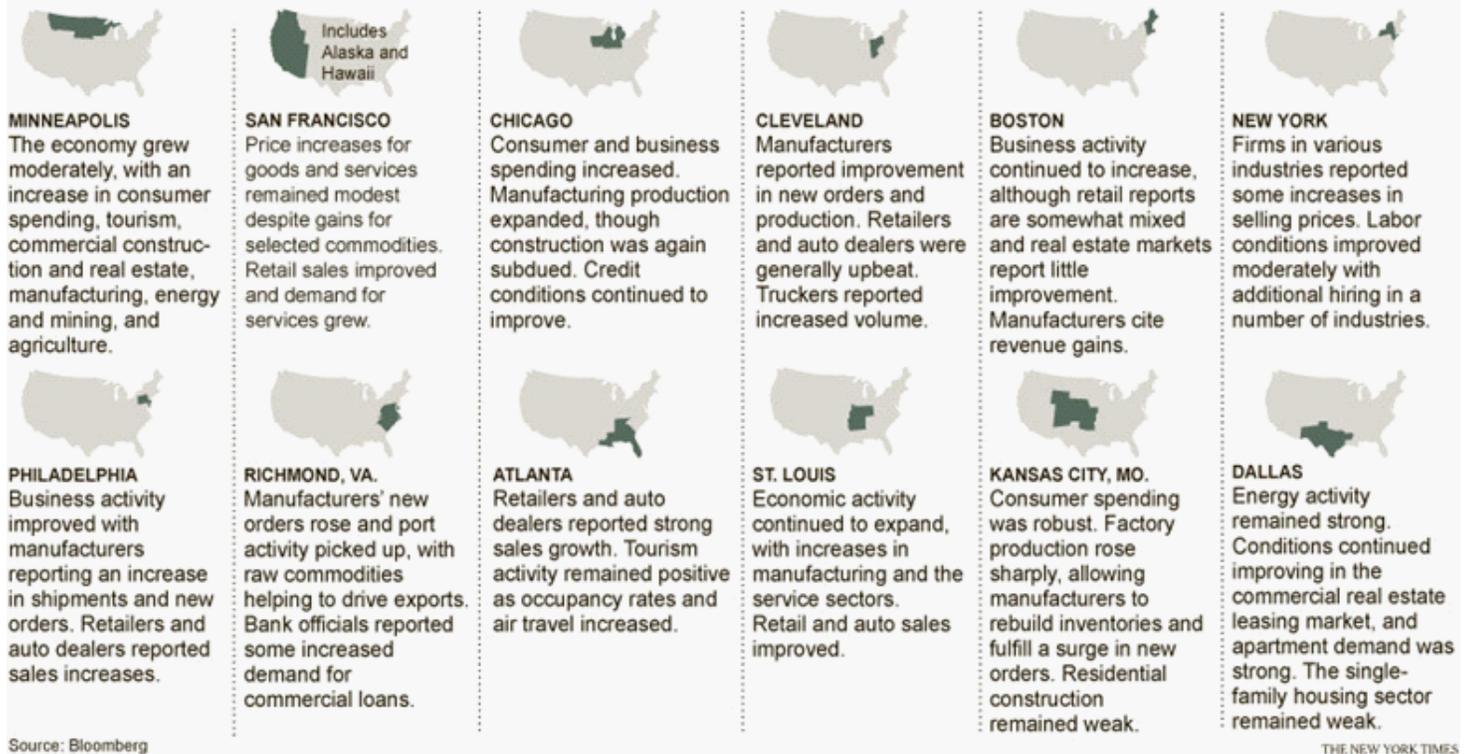
- The Commerce Department reports the U.S. trade deficit narrowed from \$45.8 billion (U.S.) in February from an upwardly revised \$47 billion in January, previously reported as \$46.3 billion (U.S.), citing a reduced demand for imports for the first time in 4 months
- The Bank of Canada leaves the Bank Rate unchanged at 1% , citing concern the premium level of the Canadian dollar is negatively impacting exports
- In its latest Fiscal Monitor Report, the International Monetary Fund (IMF) warns the U.S. is poised to record the largest budget deficit of any major developed economy this year, with a shortfall reaching 10.8% of gross domestic product (GDP) – ahead of both Japan and the United Kingdom. The IMF estimates that U.S. President Obama must cut the deficit by 5% of GDP within the next two fiscal years – the largest adjustment in “at least half a century” – in order to meet his pledge of halving the deficit by the end of his 4-year term. The IMF Report noted: “Market concerns about sustainability remain subdued in the U.S., but a further delay of action could be fiscally costly with increasing deficits exacerbated by rising (bond) yields. We recommend a down payment in the form of deficit reduction this year, which would make the government goal compatible with a less abrupt withdrawal of stimulus (programs) later.”
- Statistics Canada reports the country’s trade surplus narrowed to \$33 million (CAD) in February, citing lower exports of crude oil and automobiles
- An American arbitration panel operating under the auspices of the Financial Industry Regulatory Authority (FIRA) orders Citigroup Inc. to pay \$54.1 million (U.S.) to two wealthy investors for losses which they incurred on a series of risky municipal bond fund investments that lost 77% of their value during the financial crisis. The award is the largest ever levied against a major Wall Street brokerage firm in favour of individual investors. Among other expenses, the award included an order for Citigroup to pay \$17 million (U.S.) in punitive damages and \$3 million (U.S.) in legal fees. In a statement, Citigroup responded: “We are disappointed with the decision, which we believe is not supported by the facts or the law. (Naturally,) we are reviewing our options, which include going to the courts with an appeal.”
- The International Monetary Fund (IMF) increases its GDP growth forecast for Canada to 2.8% this year, but warns that inflationary pressures could build and once again, pointed to housing and consumer debt as potential tripwires.

WEDNESDAY, APRIL 13TH

- The Commerce Department reports U.S. retail sales rose by 0.4% in March, the ninth consecutive monthly increase, citing higher sales of gasoline
- The Office for National Statistics reports U.K. jobless claims rose by 700 to 1.451 million in March, citing a change in eligibility for single parent benefits, which disproportionately affects women, encouraged more people to seek employment
- In its latest Global Financial Stability Report, the International Monetary Fund (IMF) warns many European banks need bigger capital bases to restore market confidence and reduce the risk of another financial crisis. The IMF Report notes: “Globally, banks face a \$3.6 trillion (U.S.) wall of debt maturing within the next two years. The rollover requirements are most acute for Irish and German banks. These bank funding issues (will) coincide with higher sovereign refinancing requirements, heightening competition for scarce funding resources.”
- The Federal Statistics Office in Wiesbaden reports German wholesale prices rose by 1.3% in March and 10.9% on a year-over-year basis, the most since October 1981
- In its quarterly monetary policy report, the Bank of Canada warns: “The stronger economic expansion observed in recent quarters is projected to give way to a more modest pace, as the particularly strong rebound in exports observed recently is unlikely to be sustained, given ongoing competitive challenges including headwinds from the (premium) Canadian dollar.”
Wakeup call for Bank of Canada Governor Mark Carney: What did you think would happen to the Canadian dollar after you raised the Bank Rate three times in 2010 versus an unchanged Fed Funds rate in the United States? Obviously, you didn’t think!
- American President Obama calls upon Congress to cut the federal deficit by \$4 trillion (U.S.) over 12 years; as well as commit to automatic, across-the-board spending cuts and tax increases if the deficit is not on a target reduction path of 3% of gross domestic product (GDP) by 2014, down from nearly 10% today. President Obama’s deficit reduction plan would introduce a number of tax increases; eliminate the Bush-era tax cuts for people earning over \$250,000 (U.S.) a year; eliminate a number of tax breaks; cut discretionary spending; reduce the Pentagon’s budget and aim to lower medical costs.

Most Regions Experienced Growth

A roundup of regional economic conditions in the Federal Reserve's 12 districts, according to survey results released by the Fed on Wednesday. The survey is based on information collected on or before April 4.



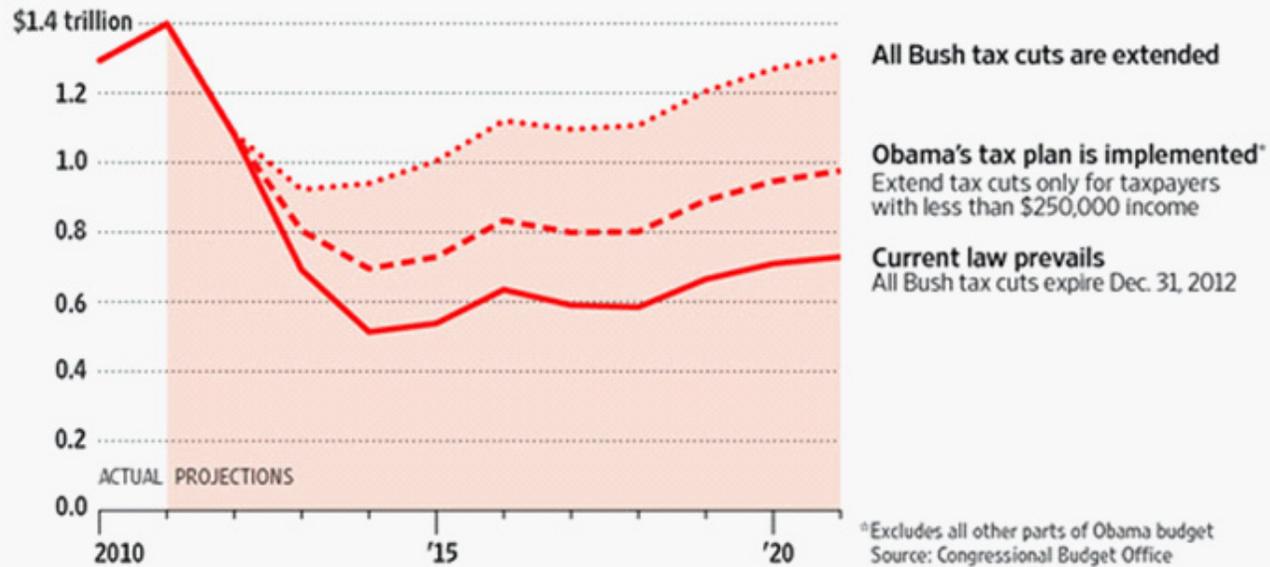
- Carl Levin, Democratic chairman of the powerful U.S. Senate permanent subcommittee on investigations, announces a two-year probe has determined that certain Wall Street financial institutions wrongly marketed mortgage-backed securities and in the process, misled investors and lawmakers. Accordingly, the subcommittee will refer evidence regarding particular investment banks, including Goldman Sachs, Washington Mutual and Deutsche Bank to the U.S. Justice Department for possible criminal investigations. The report also cites the Office of Thrift Supervision, a regulator, and credit rating agencies Standard and Poors and Moody's Investors Service.
- As gold bullion approaches a record high of \$1,480 (U.S.) per ounce, GFMS, the London-based consultancy which compiles benchmark statistics for gold, predicts in its bi-annual gold survey that "waves of investor buying will take gold prices to as much as \$1,600 (U.S.) per troy ounce by the end of 2011. As well as investor demand, consumption should hold up as official sector (a group which includes central banks and sovereign wealth funds) purchases ... potentially rise to 100 tonnes in 2011, setting a new 22-year peak." Philip Klapwijk, GFMS chairman, commented: "Mounting debt problems in the United States and a stalemate to cut the budget (deficit) could benefit gold later in the year and in 2012."

THURSDAY, APRIL 14TH

- The Labor Department reports U.S. claims for state unemployment benefits increased by 27, 000 to a seasonally adjusted 412,000 in the week ended April 9th. from an upwardly revised 385,000 the previous week; while continuing claims declined by 58,000 to 3.68 million in the week ended April 2nd. The number of people who have exhausted their benefits (which normally last six months) and are now receiving extended or emergency benefits under federal programs increased by 40,000 to 4.31 million in the week ended March 26th.
- As part of a \$4 trillion (U.S.) deficit-reduction plan announced yesterday, President Obama proposed that Congress overhaul the tax code by lowering rates, eliminating tax breaks and generate more revenue than does the current system. In response, Republican House Speaker John Boehner and Republican Senator Orrin Hatch rejected President Obama's argument that tax increases should be part of a deficit reduction package. So Washington political gridlock continues with the U.S. Treasury Department expected to reach the current debt ceiling limit of \$14.3 trillion (U.S.) by mid-May.

Top Topic: Taxes

The Congressional Budget Office's projections for the federal deficit if:



- In a Financial Times interview, U.S. Treasury Secretary Tim Geithner attempts to reassure international investors concerned about a possible debt crisis in the world's largest economy. Mr. Geithner expressed confidence that Republicans and Democrats would reach a compromise, in order to repair America's long term finances: "When you have both the President of the United States and the Republican leadership in Congress both embracing the same basic target for deficit reduction (\$4 trillion U.S. within the next decade), you have made the fundamental shift that makes it very hard for future presidents, future congresses to decide that you can live with the risks of higher deficits in the future." The Treasury Secretary also warned against any delay in the voting to increase the \$14.3 trillion (U.S.) debt ceiling, which Congress must approve by early July to avoid a potential debt default: "There is no conceivable way this country ... can court that basic risk. It would be deeply irresponsible to do that and you can't take it too close to the edge." Wakeup call for U.S. Treasury Secretary Geithner: Expect an historic game of political gridlock, in the guise of partisan brinkmanship, to unfold in Washington on the debt ceiling issue over the coming weeks. While the Democrats and Republicans may agree on a \$4 trillion (U.S.) target for deficit reduction over the next decade, the former would include tax increases as part of the initiative, while the latter would rely solely upon spending cuts. Aye, there's the rub!
- According to the Congressional Budget Office (CBO), the recent U.S. federal budget compromise which was hailed as historic for proposing to cut about \$38 billion (U.S.) would reduce federal spending by only \$352 million (U.S.) this fiscal year, less than 1% of the bill's advertised amount. However, the House and Senate approved the measure today with bipartisan support and President Obama is expected to sign the bill on Friday. The findings from the CBO warned that the compromise may never come close to delivering on its promises. The CBO analysis discovered that \$13 billion (U.S.) to \$18 billion (U.S.) of the spending cuts involve money that existed only on paper and was unlikely ever to be used.
- According to David Stockman, former Director of the Office of Management and Budget in the Reagan administration: "The giant swindle being perpetuated by Washington officialdom, then, boils down to the following pathetic truth: The U.S. Government is currently borrowing 43 cents on every dollar it spends, meaning that it is issuing about \$6 billion (U.S.) of new Treasury debt every single business day. During the balance of fiscal 2011 (ending September 30th.), this allegedly largest spending cut in (American) history will not eliminate one day's worth of new national debt!"

- In an interview with King World News, Jim Grant, founder of Grant's Interest Rate Observer, notes: "Not so many months (have) passed from the depths of our sorrows in 2008 and 2009, before people seemed to be reverting to much the same kind of financial conduct that was (very) much in evidence between 2005 and 2007. The cycles are getting shorter. Then again, the (U.S.) government is now in the business of, so it declares, restoring financial prosperity through force. After the Great Depression, there was nothing (initiated by the Federal Reserve) like the policy that Ben Bernanke and company have been implementing now. I don't think that human beings are much different than they were way back when, but certainly the government's response to (financial) crises is vastly different." When asked how the United States will resolve its debt and deficit problems, Grant remarked: "Well, in my mind it will resolve them necessarily by undertaking the step of restoring the (U.S.) dollar to convertibility into gold."
- The Labor Department reports the U.S. producer price index rose by 0.7% in March, citing higher prices for energy, light trucks and passenger cars
- Bank of America, the nation's largest bank, reports 1st. quarter earnings declined by 37% to \$2 billion (U.S.), plagued by the persistent burden of Countrywide Financial, the subprime mortgage lender its former President and CEO Ken Lewis, purchased in 2008. Ken Lewis' legacy of ignorance and incompetence remains alive and well at B of A. See also, Winter Warning, February 2, 2009 – The Clash of Cultures.
- China's gross domestic product (GDP) grew by 9.7% in the 1st. quarter, only fractionally slower than the 9.8% registered in the 4th. quarter of 2010
- The Canadian Real Estate Association (CREA) reports sales of existing homes held relatively steady across the country in March, but average prices rose by 8.9% on a year-over-year basis nationally, citing "a record number of multimillion dollar property sales in Richmond and West Vancouver, B.C."
- Moody's Investors Service downgrades Ireland's sovereign debt credit rating from Baa1 to Baa3 (one level above junk bond status) with a negative outlook, citing "the Irish economy appears unlikely to grow much, if at all in 2011 while private access to credit, needed to stimulate (economic) growth, remains weak"
- The Federal Reserve reports U.S. factory output increased by 0.7% in March, citing increased production of consumer goods, business equipment and raw materials

FRIDAY, APRIL 15TH

- The Labor Department reports the U.S. consumer price index rose by 0.5% in March, while the core rate (excluding food and energy) increased by only 0.1%
- The Thomson Reuters / University of Michigan preliminary index of consumer sentiment rose to a reading of 69.6 in April, following a level of 67.5 in March

	CLOSING LEVELS FOR FRIDAY, APRIL 15TH.	WEEKLY CHANGE
Dow Jones Industrial Average	12,341.80	- 38.20 points
Spot Gold Bullion (May)	\$1,486.00 (U.S.)	+ 11.90 per oz.
S&P / TSX Composite	13,799.10	- 409.30 points
10-Year U.S. Treasury Yield	3.41%	- 18 basis points
Canadian Dollar	104.23 cents (U.S.)	- 0.47 cent
U.S. Dollar Index Future (Spot Price)	74.82 cents	- 0.038 cent
WTI Crude Oil (May)	\$109.66 (U.S.)	- \$3.13 per barrel

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