

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

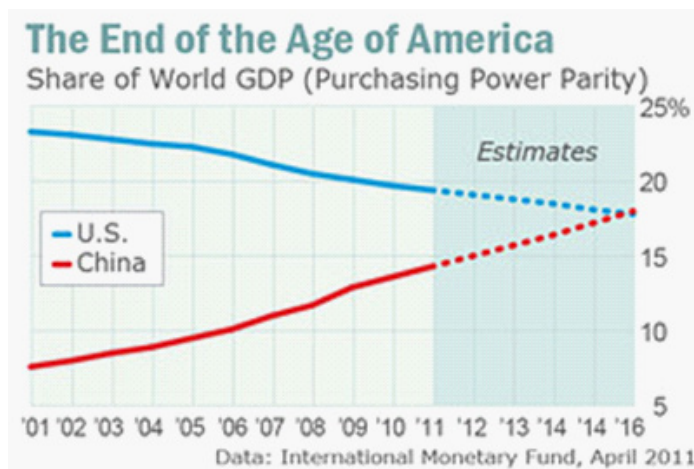


Monday, April 25th

The Commerce Department reports new U.S. home sales rose by 11.1% in March, to a seasonally adjusted 300,000 unit annual pace, following an upwardly revised 270,000 unit pace in February

MONDAY, APRIL 25TH

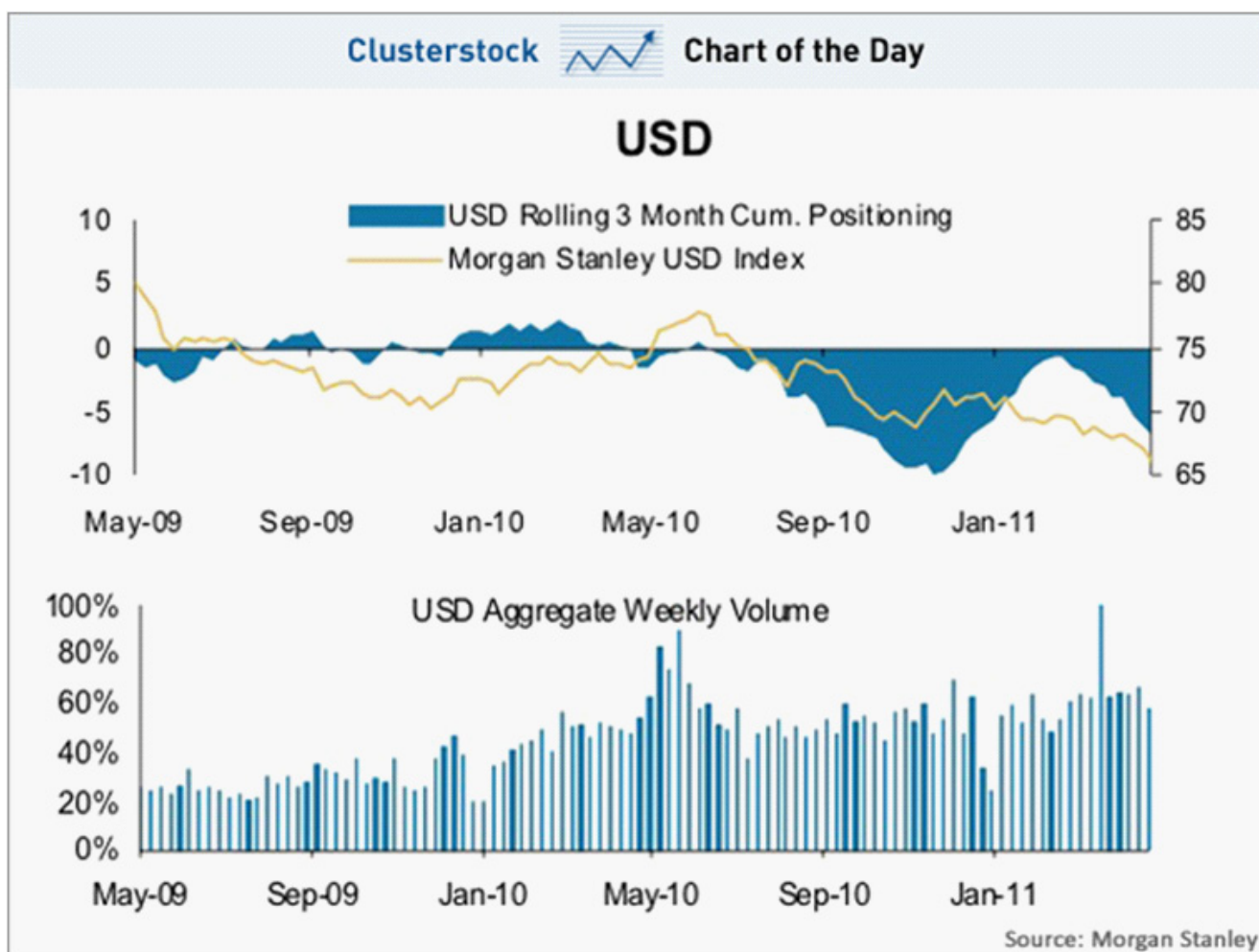
- The International Monetary Fund predicts China's economy will surpass America's economy in real terms in 2016



- In March, the Alabama Supreme Court struck down Jefferson County's (home to Birmingham) occupational tax and business fee eliminating a key source of revenue. County officials cite that decision, coupled with Standard and Poors downgrade of the county's credit rating outlook last week from stable to negative, has left them with few good options apart from filing for Chapter 9 bankruptcy protection. According to the Birmingham News, in case the county files for bankruptcy protection, John Young, the court-appointed receiver for the county's sewer system, is not only, seeking control over the sewer system's \$257 million (U.S.) in cash and investments, but also, is advocating

double-digit sewer rate increases, in order to pay the \$3.2 billion (U.S.) which the county owes to the sewer system's creditors; which includes JP Morgan Chase & Co. The sewer system debt is the result of years of mismanagement and corruption by local officials. If Jefferson County files for Chapter 9 protection, it would be the largest municipal bankruptcy in U.S. history and could serve as a blueprint for hundreds of American municipalities facing insolvency. Failure to eliminate serious budget deficits this year could cause the following municipalities to file for bankruptcy: San Jose, San Diego, San Francisco and Los Angeles (Cal.); New York City (N.Y.); Cincinnati (OH); Honolulu (HI); Washington (D.C.); Newark, Camden and Paterson (N.J.); Detroit and Hamtramck (MI); Reading (PENN.); Joliet (ILL) and Central Falls (RI).

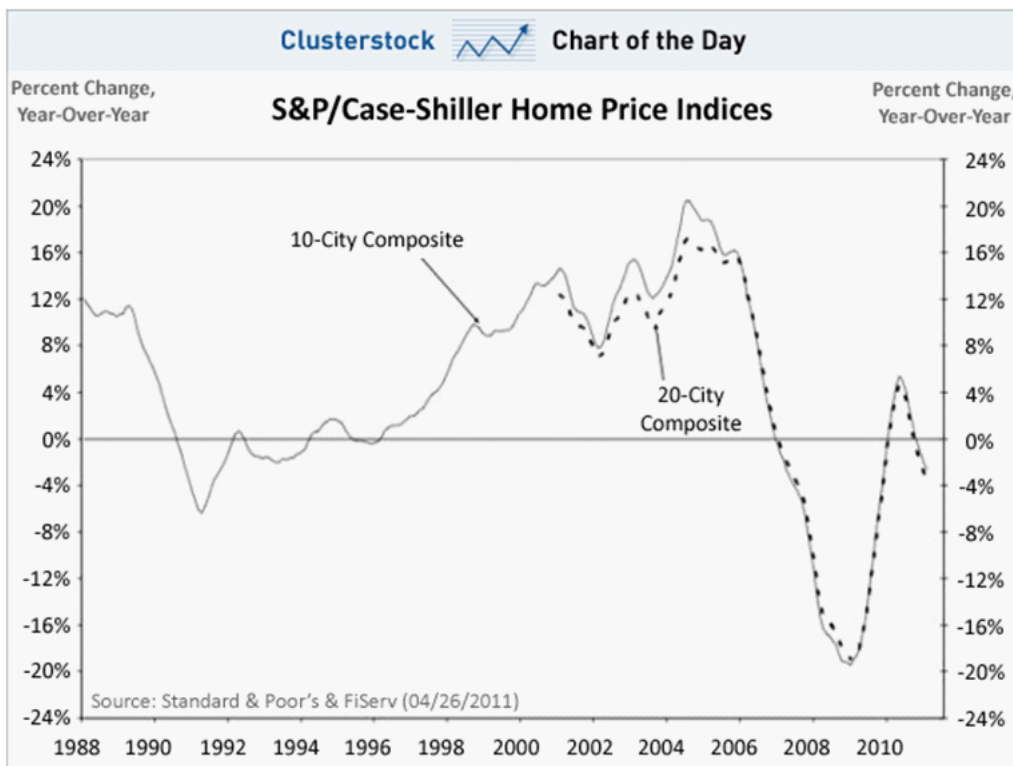
- According to the Wall Street Journal, the main driver for the U.S. dollar's decline is low domestic interest rates compared with higher and rising rates abroad ... However, it is worry about the U.S. budget deficit and national debt ceiling that is intensifying the selloff ... In addition, Chinese government officials have heightened their rhetoric: hinting they might diversify their \$3 trillion (U.S.) of currency reserves away from U.S. dollars ... Moreover, a weaker dollar hits strained American consumers by raising the cost of imported oil, as exporters seek higher dollar-denominated crude oil prices to offset the dollar's waning value ...



- The U.S. Justice Department announces a working group of federal agencies to probe potential fraud in the energy markets, citing the Commodity Futures Trading Commission; the Federal Trade Commission; the Federal Reserve Board; the Securities and Exchange Commission; as well as the Departments of Agriculture, Energy, Justice and Treasury. According to Reuters, the White House is concerned if gas prices rise above \$4.00 (U.S.) a gallon, the economic and political fallout could dominate the 2012 presidential campaign and negate President Obama's message of economic recovery.
- Greek newspapers report that Greece is considering ways to restructure its debt – such by extending the life of its loans – two national newspapers claimed on the weekend, joining a flurry of recent reports on the prospect that Athens might be forced to default. Greek and European Union (EU) officials have steadfastly denied that a debt restructuring is planned in the face of mounting evidence that markets are factoring in a rescheduling. According to the UK Telegraph, a delegation of European and international monetary officials are planning a crisis summit in Athens in May, amid growing fears that Greece may default on its foreign debt.
- In a New York Times article, bankers and economists cite the Fed's quantitative easing policy (QE 2) as disappointing: "I wasn't a big fan of it in the first place," commented Charles Plosser, President of the Federal Reserve Bank of Philadelphia and one of the 10 members of the Fed's open market committee (FOMC). "I didn't think it was going to have much of an impact and it complicated the exit strategy. What we have seen has not changed my mind." Mickey Levy, Bank of America's chief economist, observes: "What has it done? It has eased credit conditions, it has pumped up the stock market and it has suppressed the dollar. But does the Fed think that buying Treasuries and bloating its balance sheet is really going to create permanent job increases?" Mark Thomas, a professor of economics at the University of Oregon, remarked: "It's good for stopping the fall, but for actually turning things around and driving the (economic) recovery, I just don't think monetary policy has that power. Some of these critics view the rising price of oil and other commodities as harbingers of broader price increases."

TUESDAY, APRIL 26TH

- Ford Motor Corp. reports 1st. quarter profit rose by 22%, as net income increased to \$2.55 billion (U.S.) compared to \$2.09 billion (U.S.) a year ago, citing higher prices being commanded for more fuel-efficient new car models
- Eurostat reports from Luxembourg that Greece’s budget deficit for fiscal 2010 was 10.5% of gross domestic product (GDP) compared with 15.4% of GDP for 2009; but was at least 1% higher than the country’s revised target of 9.4%. In a Bloomberg TV interview, Lars Feld, a member of the German government’s Council of Economic Advisors commented: “I don’t think that Greece will succeed in this (budget) consolidation strategy without any (debt) restructuring ... Greece should restructure sooner (rather) than later.” Yesterday, the yield on Greek 10-year bonds touched 15.26% in the secondary market.
- Angered by spiking fuel costs and rising food prices, Chinese truck drivers hauling goods to and from the Port of Shanghai go on strike, initiating a major confrontation with hundreds of police officers. China’s annual inflation rate surged to 5.4% in March, the highest level in 30 months. In the past, major increases in consumer prices have led to widespread civil unrest.
- Ukraine President Viktor Yanukovich dismisses Moscow’s latest effort to lure his country into a Russia-led ‘Customs Union’ trade bloc, which already has former Soviet republics Belarus and Kazakhstan as members. Instead, Ukraine is currently negotiating a free-trade agreement with the European Union (EU), preferring to limit co-operation with the post-Soviet bloc “outside the framework of formal membership.”
- Portugal’s National Statistical Institute forwards Eurostat an upwardly revised deficit estimate of 9.1% of gross domestic product (GDP) for fiscal 2010, exceeding its previous estimate of 8.6% and well above the 7.3% estimate that was ‘targeted’ by the government
- The S&P/Case-Shiller U.S. 10-city and 20-city indexes both declined by 1.1% in February from January, not adjusted for seasonality. Prices in the index following 10 major metropolitan areas were down 2.6% from a year ago; while the 20-city index was 3.3% below the level recorded in February 2010. David Blitzer, chairman of S&P’s index committee commented: “There is very little, if any, good news about housing.”



WEDNESDAY, APRIL 27TH

- The Commerce Department reports orders for U.S. durable goods – items intended to last for at least 3 years – rose by 2.5% in March, following an upwardly revised gain of 0.7% in February, citing increased demand for machinery, computers and automobiles
- The Office for National Statistics reports Britain's gross domestic product (GDP) grew by 0.5% in the 1st. quarter, following a decline by a similar amount in the final quarter of 2010, citing a 0.9% expansion in the services sector – the highest in four years
- Barrick Gold Corp. – the world's largest gold miner – reports earnings in the 1st. quarter rose by 22% to \$1billion (U.S.), compared with \$820 million (U.S.) in the same period a year ago, citing in a news release: "higher realized prices for both gold and copper and better than expected total gold cash costs."
- Standard & Poors (S&P) affirms Japan's sovereign debt credit rating at 'AA' (Low) while simultaneously, downgrading its rating outlook from stable to negative and citing: "Public debt, already twice the size of the \$5 trillion (U.S.) economy, is set to swell as the country faces reconstruction costs following the March 11th. earthquake and tsunami that could reach 50 trillion yen (\$613 billion U.S.). If there are no revenue enhancing measures, we expect the central and local governments to bear most of this cost."
- The Conference Board of Canada's consumer confidence index rose to a reading of 87.7 in April from a level of 83.7 in March, citing in a news release: "While all (responses to) questions showed improvement, the driver behind the overall increase in the consumer confidence index was the sharp turnaround in attitudes towards major purchases; such as a new home, vehicle or large appliance."
- Nokia Corp. announces 4,000 worldwide layoffs over the next 20 months, as it strives to cut costs amid stiff competition from top smart phone manufacturers, with most of the job cuts occurring in Denmark, Finland and Great Britain
- Moody's Investors Service downgrades the credit rating for the State of New Jersey to 'Aa3' from 'Aa2' citing: "(Budgetary) recovery will be unlikely in the medium term, due to rapidly rising fixed costs, a relatively slow economic recovery and the lack of a specified plan to rebuild fund balances."
- In a statement following a two-day meeting, the Federal Reserve Open Market Committee (FOMC) decided to: "maintain its existing policy of reinvesting principal payments from its securities holdings and will complete purchases of \$600 billion (U.S.) of longer-term Treasury securities (quantitative easing) by the end of the current quarter ... The Committee will maintain the target range for the Federal Funds rate at 0 to 0.25% and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends and stable inflation expectations, are likely to warrant exceptionally low levels for the Federal Funds rate for an extended period." In other words, U.S. Federal Reserve Chairman Ben Bernanke remains frenetically paranoid about another economic downturn occurring during his watch.
- According to a new study by the Pew Center on the States, the state funds which pay pension and health care benefits to retired teachers, corrections officers and millions of other public workers, faced a cumulative (budget) shortfall of at least \$1.26 trillion (U.S.) at the end of fiscal 2009. Pew officials reported the growing shortfall was driven by inadequate state contributions, an aging population and investment portfolio losses that accompanied the economic downturn. Susan Urahn, managing director on the Pew center on the States, commented: "In many states, the bill for public sector retirement benefits already threatens strained budgets and is competing for resources with other critical needs, including education, infrastructure and health care."

THURSDAY, APRIL 28TH

- The Commerce Department reports U.S. gross domestic product (GDP) grew at an annual rate of 1.8% in the 1st. quarter, following a 3.1% growth rate in the 4th. quarter of 2010
- The Labor Department reports U.S. initial claims for state unemployment benefits increased by 25,000 to 429,000 in the week ended April 23rd. from an upwardly revised 404,000 the previous week, while continuing claims declined by 68,000 to 3.64 million in the week ended April 16th. Claims for emergency and extended benefits under federal programs also declined by 78,883 to 3.45 million in the week ended April 9th.
- The Nuremburg-based Gfk marketing institute reports its forward-looking consumer confidence indicator for the German economy declined to a reading of 5.7 points in May, from 5.9 points in April

- Agnico-Eagle Mines posts a 1st. quarter profit of \$45.3 million (U.S.) compared with a profit of \$22.3 million (U.S.) in the same period a year ago, despite incurring a fire which hampered production at its Meadowbank mine in the Canadian territory of Nunavut
- Panasonic Corp. – Japan’s biggest home appliance manufacturer – announces 17,000 job layoffs worldwide, as its losses grow from restructuring costs and damage incurred from the March 11th. earthquake and tsunami. President Fumio Ohtsubo commented: “The company will streamline operations to boost profitability, including selling some of its businesses and reduce its work force to 350,000 by the fiscal year ending March 2013.”
- The Philadelphia Enquirer reports Pennsylvania Governor Tom Corbett’s proposed \$1.1 billion (U.S.) cut in the state’s education budget will force the Philadelphia School District to lay off 3,820 employees – including 12% of the district’s teachers – to close a \$629 million (U.S.) shortfall in the district’s \$2.7 billion (U.S.) school budget next year.
- Economist Ed Yardeni comments on the Federal Reserve: “According to yesterday’s FOMC statement, the Fed is still your friend if you are invested in cyclical stocks, commodities, and foreign currencies. If you eat food and run your car on gasoline, the Fed will continue to hurt you. If you are looking for a job, you may be wondering why it is still so hard to find one despite all the money the Fed has spent so far on quantitative easing (QE-2). If you are retired and living on interest income from your certificates of deposit (CDs), then you are really getting squeezed between rising food and fuel prices and the Fed’s zero interest rate policy (ZIRP). In other words, the Fed seems to be doing more to widen the gap between the Haves and Have-Nots than to lower unemployment and boost economic growth.”
- The Institute for Supply Management-Chicago Inc. reports its business index declined to a reading of 67.6 in April following a level of 70.6 in March. Russell Price, a senior economist at Ameriprise Financial Inc. noted: “The manufacturing sector still seems to be enjoying a solid recovery, but the pace of expansion seems to have eased recently.”
- Statistics Canada reports the nation’s gross domestic product (GDP) contracted by 0.2% in February following a gain of 0.5% in January. In a research note to clients, Toronto-Dominion Bank economist Diana Petramala commented: “Given how closely tied Canada’s export sector is to the U.S. economy, much of the weakness in Canadian economic activity in February can be explained by the sharp slowdown experienced in the United States.”
- The National Statistics Institute reports Spain’s unemployment rate rose sharply to a new euro zone high of 21.3% in the 1st. quarter – the highest reported by the country since 1997 – with a record 4.9 million people out of work.
- Eurostat reports euro zone inflation rose by an annual rate of 2.8% in April, up from 2.7% in March, even as the European Commission’s economic sentiment index declined to a reading of 106.2 from a level of 107.3 over the same time frame
- According to the most recent Gallup Poll, more than half of Americans describe the U.S. economy as being in a recession or depression, i.e. twice the number who describe the economy as growing (27%). Democrats rate the economy better than Republicans or Tea Party members and wealthier Americans are more positive than those with lower incomes
- In a UK Telegraph op-ed, assistant editor Jeremy Warner recounts: “It is only right that central banks, having messed up so monumentally, are made more transparent and accountable. The old order is ending and a new one is beginning. The Fed’s decision to become more transparent might be seen as symbolic of this transition. Its power and influence on the world stage are on the wane.”

CLOSING LEVELS FOR FRIDAY APRIL 29TH.		WEEKLY CHANGE
Dow Jones Industrial Average	12,810.54	+ 304.54 points
Spot Gold Bullion (June)	\$1,556.40 (U.S.)	+ \$52.60 per oz.
S&P / TSX Composite	13,944.79	– 27.21 points
10-Year U.S. Treasury Yield	3.29%	– 11 basis points
Canadian Dollar	105.80 cents (U.S.)	+ 1.02 cent
U.S. Dollar Index Future (Spot Price)	73.03 cents	– 1.08 cent
WTI Crude Oil (June)	\$113.93 (U.S.)	+ \$1.64 per barrel

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