

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

# THAT WAS THE WEEK THAT WAS



## Monday, May 2nd

The Ministry of Commerce reports India's merchandise exports increased by 44% in March to a record \$29 billion (U.S.), on a year-over-year basis

### MONDAY, MAY 2ND

- Chrysler Corp. reports a net income of \$116 million (U.S.) in the 1st. quarter compared to a loss of \$197 million (U.S.) in the 1st. quarter of 2010, citing global sales of new cars and trucks increased by 18% to 394,000 vehicles
- The Japan Automobile Dealers Association reports sales of new cars, trucks and buses declined by 51% in April, on a year-over-year basis, to 108,824 vehicles – a record low monthly volume, citing parts shortages due to the March 11th. earthquake and tsunami; as well as reduced deliveries of new vehicles to dealerships
- According to John Williams, Editor of ShadowStats.com, “The sharp deterioration in underlying trade data, as reported in April by the Bureau of Economic Analysis (BEA), appears largely to have been ignored. Purportedly, those numbers are used by the BEA in estimating the GDP's net export account. GDP data anywhere close to the official trade reporting would have taken the GDP growth estimate into negative territory. As a result of the trade issues and the wide error margins for GDP reporting, the 1st. quarter growth estimate was of unusually poor quality and could have been reported just as easily as a contraction, as it was a small gain (of 1.8%).”
- China's logistics federation and statistics bureau reports the nation's Purchasing Managers' Index declined to a reading of 52.9 in April from a level of 53.4 in March, citing a moderation of growth in the manufacturing sector
- In a recent address to the Council on Foreign Relations (CFR) in New York City, U.S. Treasury Secretary Tim Geithner stated there was no risk of the United States ever losing its 'AAA' sovereign debt credit rating because “the (government's) plan is to bring the budget deficit down to a level that will put our overall debt burden on a declining path as a share of the economy by about 2015 ... Our policy has been and will always be, as long, at least, as I'm in this job, that a strong dollar is in our interests as a country; and we will never embrace a strategy of trying to weaken our currency to gain economic advantage at the expense of our trading partners.” In an op-ed article, U.K. Telegraph columnist Liam Halligan retorts: “That's total nonsense, of course – seeing as a weaker currency boosts U.S. exports and lowers the value of America's external debt. Geithner's words are, not only disingenuous, but (also) insulting to America's creditors and trading partners. In fact, Washington's constant berating of Beijing for “currency manipulation” is looking more and more like a diversionary tactic ... America's currency depreciation trick could also backfire badly if ‘the rope slips’ and far from a steady decline, the world's pivotal currency goes into free fall ... America's base money supply – the bedrock of the world's reserve currency – has doubled in little more than two years. Despite consternation among many U.S. voters, and dismay – rapidly turning to anger – across the world, most of America's political elite refuse even to debate quantitative easing (QE-2). Such is the state of democracy in the land of the free and the home of the brave.”

## TUESDAY, MAY 3RD

- According to Autodata, General Motors and Ford Motor posted double-digit percentage gains for U.S. sales in April, citing higher consumer demand for fuel efficient cars. Industry sales totaled 13.17 million cars and trucks, up from 11.26 million a year ago.
- Portugal reaches an agreement with the European Union (EU) and the International Monetary Fund (IMF) for EU-led bailout that will provide as much as 78 billion euros (\$116 billion U.S.) in aid and allow more time to reduce the country's budget deficit. Portuguese Prime Minister Jose Socrates announced the three-year plan which set goals for a budget deficit of 5.9% of gross domestic product (GDP) this year, 4.5% in 2012 and 3% in 2013. Mr. Socrates hailed the package as a victory citing: "It includes more lenient terms than those imposed on Greece and Ireland. The government has obtained a good deal. This a deal that defends Portugal."
- The U.S. government sues Deutsche Bank AG for more than \$1 billion (U.S.), accusing the German bank of defrauding it by repeatedly lying to obtain federal insurance guarantees on mortgage debt. According to the complaint, Deutsche Bank and its Mortgage IT Inc. unit misled the U.S. government into believing their mortgages qualified for federal insurance, knowing they could realize "substantial profits" when the mortgages were to be sold
- The Reserve Bank of India (RBI) raises its repo rate, at which it lends to banks, by 50 basis points to 7.25%, citing, "Inflation will remain elevated near March levels in the first half of the fiscal year that began in April, before moderating in the second half." In the bank's annual monetary policy statement, RBI Governor Duvvuri Subbarao observed: "Current elevated rates of inflation pose significant risks to future (economic) growth. Bringing the inflation rate down, therefore, even at the cost of some (economic) growth in the short-run, should take precedence."
- In a question and answer period with students at Tilburg University in the Netherlands, European Central Bank (ECB) policy-maker Nout Wellink confirms he is open to the idea of extending maturities for Greek debt, becoming the first senior ECB official to admit that possibility publically. Mr. Wellink, a member of the ECB's Governing Council, stated he opposed "any (hair)cut in the principal of Greek bonds." In contrast to other ECB policy-makers, who have rejected any talk of debt restructuring as dangerous, Mr. Wellink added that "it might make sense to extend deadlines (maturities) for repaying the principal."

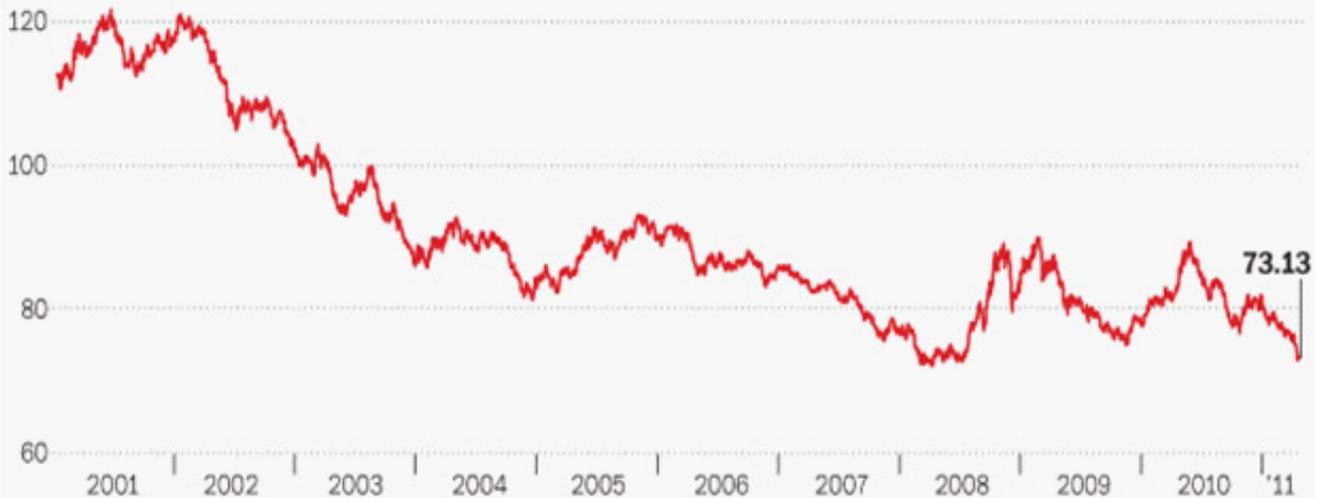
- The Commerce Department reports U.S. factory orders rose by 3% in March to \$462.91 billion (U.S.), following an upwardly revised gain of 0.7% in February

## WEDNESDAY, MAY 4TH

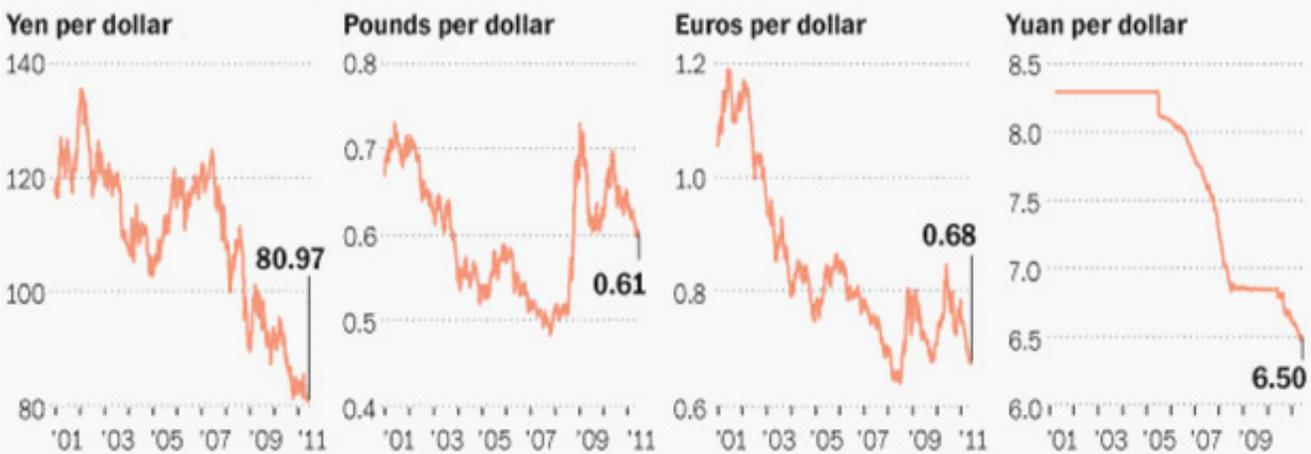
- Automatic Data Processing Inc. (ADP) reports the U.S. private sector added 179,000 jobs in April, the smallest increase since November 2010
- According to Dow Jones Newswires, finance officials from China, Japan and South Korea have agreed to study a proposal to use their own currencies for the purpose of regional trade settlement instead of the U.S. dollar
- The Tempe, Arizona-based Institute for Supply Management (ISM) U.S. services index declined from a level of 57.3 in March to a reading of 52.8 in April, the lowest reading since August 2010. Readings greater than 50 signal growth for about 90% of the economy. The ISM services survey covers industries that range from utilities and retailing, to health care, finance and transportation.
- The Bank of England reports net lending to U.K. businesses (outside the financial sector), based upon a measure that excludes securitizations, contracted by 1.3 billion pounds in the 1st. quarter – an annualized decline of 1.2%.
- In a Forbes op-ed entitled Ben Bernanke's Lone Positive Legacy: A Return to the Gold Standard, writer Bill Freeza opines: "The Federal Reserve long ago lost control of inflation, now ravaging several sectors of our economy. This is obvious to every economist not a member of Bernanke's Greek chorus, singing lyrics provided by the gnomes in the Bureau of Labor Statistics (BLS). Their modern re-interpretation of the dance of the seven veils uses statistical 'adjustments' instead of scarves, but these keep the evidence of inflation as hidden as Salome's charms. My favourite fudge has to be the 'hedonic quality adjustment.' What are you going to believe, the government's regression coefficient estimates, or your own lying eyes ... Nor will our economy, after the triple whammy of double-digit unemployment, double-digit inflation and an uncontrollable budget deficit comes down on our heads. That's why I think the gold standard will make a comeback. It's too bad the country has to be dragged through so much avoidable misery, but perhaps that's the only way (that) we can put a stake through the heart of a fiat currency."

**U.S. dollar index**

The dollar against six major currencies, daily closes Jan. 24, 2001, to May 3

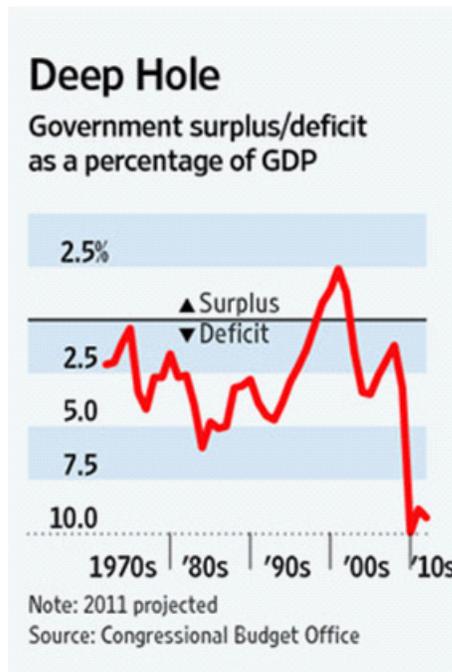


Weekly closes of currencies per dollar\*



\*Latest number as of May 3.

- Moody's Investors Service downgrades the Bank of America's underlying mortgage servicing ratings with a negative outlook, citing: "the challenges Bank of America continues to face with the integration of Countrywide Financial. The ratings evaluate how effective a servicer is at preventing defaults and maximizing recoveries to a transaction when defaults occur." The pathetic legacy of ignorance and incompetence of retired B of A President and CEO Ken Lewis, who allowed his emotions to rule his limited business judgment, remains alive and well in Charlotte, North Carolina
- The Wall Street Journal reports Republican leaders and the White House are discussing a potential agreement that would enact strict deficit targets and some spending cuts in order to win Republican votes for raising the statutory debt limit of \$14.3 trillion (U.S.) – enabling the government to continue borrowing in the bond market. The agreement would defer contentious decisions about Medicare, Medicaid and tax reform until after the 2012 elections. Rep. Paul Ryan (R.-Wis.) commented to reporters: "We're not going to get a grand slam agreement because of the political parameters. My hope at this moment is to get a single or a double."



- In a statement to reporters, Mary Miller, U.S. Assistant Treasury Secretary for Financial Markets warned: "Congress has never failed to increase the debt limit when necessary and Treasury is confident that a timely increase will be enacted this year. However, in the unlikely event that the debt limit is not increased by August 2nd, some alterations to the auction schedule should be expected. I do think there's a reasonable likelihood that date could change in either direction, but Treasury will provide as much notice as possible in the event of a change in bond auction schedules. On Friday, Treasury will begin implementing extraordinary measures to preserve cash and delay as much as possible a potential default." The first step involves suspending the issuance of special Treasury bonds which help state and local governments better manage their finances.
- The Nationwide Building Society reports the average U.K. home lost 0.2% of its value to a price of 165,609 pounds in April. Separately, the Markit/CIPS U.K. construction purchasing managers' index declined to a reading of 53.3 in April from a level of 56.4 in March.

THURSDAY, MAY 5TH
- The Bank of England (BOE) keeps its Bank Rate paid on commercial bank reserves at 0.5%, while maintaining its asset purchase program (quantitative easing) at 200 billion pounds (\$330 billion U.S.)
- The Labor Department reports U.S. claims for state unemployment benefits rose by 47,000 to 474,000 in the week ended April 30th, citing, a spring break holiday in New York, a new emergency benefits program in Oregon and auto shutdowns caused by the disaster in Japan, as the main reasons for the significant increase; erstwhile, continuing claims rose by 74,000 to 3.37 million in the week ended April 23rd. The number of people who have exhausted their traditional benefits and are now receiving emergency and extended benefits under federal programs declined by about 42,900 to 4.12 million in the week ended April 16th.
- At a press conference in Lisbon, Portuguese Finance Minister Fernando Teixeira Santos forecast Portugal's gross domestic product (GDP) will decline by 2% in both 2011 and 2012, as the government implements additional austerity measures to qualify for the international aid package of 78 billion euros (\$116 billion U.S.)
- Societe Generale (SocGen), France's second largest bank, posts a net profit of 916 million euros (\$1.36 billion U.S.) in the 1st. quarter compared with a profit of 1.06 billion euros in the same period a year ago, citing weak international operations affected by political upheavals across North Africa and a continuing difficult economic situation in Greece, where SocGen operates through its Geniki Bank unit
- Sales at American retail stores open for at least a year – a measure of buoyancy known as same store sales – rose by 8.9% on average in April, according to Thomson Reuters which tracks 25 retailers. Chris Donnelly, a senior executive at Accenture commented: "Everyone's pretty happy that April turned out so well, however there's still a lot of concern that gasoline prices and raw material costs are rising sharply."
- According to estimates by Goldman Sachs, Russian central bank data revealed a net \$21 billion of investment capital fled the country in the 1st. quarter, followed by an outflow of \$5.3 billion (U.S.) in April. President Medvedev has made little progress spurring economic development, as Russia has slid to his lowest rating on Transparency International's corruption index – 154th. out of 178 countries – while remaining ever more dependent upon oil and gas. Chris Barter, Co-Chief Executive Officer of Goldman Sachs in Russia warned: "Some kind of enduring reform of the Russian financial and judicial systems is needed because the rate of capital outflow is currently unsustainable." From Russia Without Love!

- According to data from the International Monetary Fund (IMF), Mexico purchased 93.3 metric tonnes of gold since January, increasing their holdings from about 6.9 metric tonnes. Russia increased its gold reserves by 18.8 metric tons to 811.1 metric tonnes in March, as did Thailand by 9.3 metric tonnes to 108.9 metric tonnes, also in March.
  - The U.S. Department of Agriculture reports 44.2 million Americans – or 1 in 7 people – were reliant upon the food stamp safety net program in February
  - Statistics Canada reports the country's economy added 58,300 jobs in April – albeit mostly part-time positions – as the unemployment rate improved slightly to 7.6%, matching a two-year low
  - U.S. House Speaker John Boehner voices optimism about new debt reduction talks led by U.S. Vice President Joe Biden; but reiterated that “Republicans will not vote to raise the (statutory) debt limit without trillions of dollars of real spending cuts. It is time to start talking about trillions of dollars, instead of the billions and tens of billions debated in budget battles earlier this year.”
- FRIDAY, MAY 6TH
- The Labor Department reports U.S. non-farm payrolls increased by 244,000 in April versus a revised gain of 221,000 in March while the unemployment rate rose to 9.00% from 8.8% in March
  - The Federal Reserve reports U.S. consumer credit rose by \$6 billion (U.S.) in March following an increase of \$7.6 billion (U.S.) in February, citing a gain in non-revolving credit which includes auto loans and credit card usage

## CLOSING LEVELS FOR FRIDAY, MAY 6TH.

## WEEKLY CHANGE

Dow Jones Industrial Average	12,638.70	– 171.84 points
Spot Gold Bullion (June)	\$1,491.60 (U.S.)	– \$64.80 per oz.
S&P / TSX Composite	13,566.60	– 378.19 points
10-Year U.S. Treasury Yield	3.20%	– 9 basis points
Canadian Dollar	103.48 cents (U.S.)	– 2.32 cents
U.S. Dollar Index Future (Spot Price)	74.914 cents	– 1.884 cent
WTI Crude Oil (June)	\$97.18 (U.S.)	– \$16.75 per barrel

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