

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS



Monday, May 9th

The Federal Statistics Office reports German exports rose by 7.3% in March on a seasonally adjusted basis to 98.3 billion euros (\$141.1 billion U.S.) – a record high

MONDAY, MAY 9TH

- Standard & Poors downgrades Greece's sovereign debt rating; this time by two levels from 'BB' (Low) to 'B' with a negative outlook citing: "In our view, there is increased risk that Greece will take steps to restructure the terms of its commercial debt, including its previously-issued government bonds. Euro zone countries will likely want private holders of Greek government debt to extend bond maturity dates, as governments consider easing terms on the bailout (package) that saved Greece from (declaring) bankruptcy last year. S&P's projections suggest that principal reductions of 50% or more, known as a 'haircut,' could be needed to restore Greece's debt burden to a sustainable level."
- In a Monday evening address to the Economic Club of New York, House Speaker John Boehner (R-Ohio) reveals that amid negotiations over the raising of the federal statutory debt limit, he is demanding that President Obama and Senate Democrats agree to at least \$2 trillion (U.S.) in spending cuts: "The cuts should be greater than the accompanying increase in debt authority the President is given. We should be talking about cuts in trillions, not just billions. They should be actual cuts and program reforms, not broad debt or deficit targets that punt the tough questions into the future. If we're serious about balancing the budget and getting our economy back to creating jobs, tax hikes should be off the table." The political gridlock game of Washington hardball brinkmanship is well under way.
- According to a study by Bloomberg Markets, five of Canada's biggest financial institutions have been named to a list of the world's 20 strongest banks. The study, which rates the quality and stability of individual bank balance sheets against specific criteria, named the National Bank to 3rd. place; Canadian Imperial Bank of Commerce in the 4th. spot; Toronto-Dominion Bank in 12th. position; Royal Bank in 17th. place and Bank of Montreal in the 19th. spot.
- Canada Mortgage and Housing Corp. (CMHC) reports the nation's housing starts declined by 3.1% in April to a seasonally adjusted annualized rate of 179,000 units from a downwardly revised 184,700 units in March, citing a decline in construction of multi-unit family dwellings such as condominiums
- According to updated research from Zillow, a major U.S. property website, the average American house price declined by 3% in the 1st. quarter, causing the number of homeowners in a negative equity position – when the value of the mortgage exceeds the value of the property – to increase to 28% from 22% in the same period a year ago. Stan Humphries, Zillow's chief economist, warned: "Rising foreclosures and high negative equity rates make it almost certain that home values won't bottom until at least 2012."

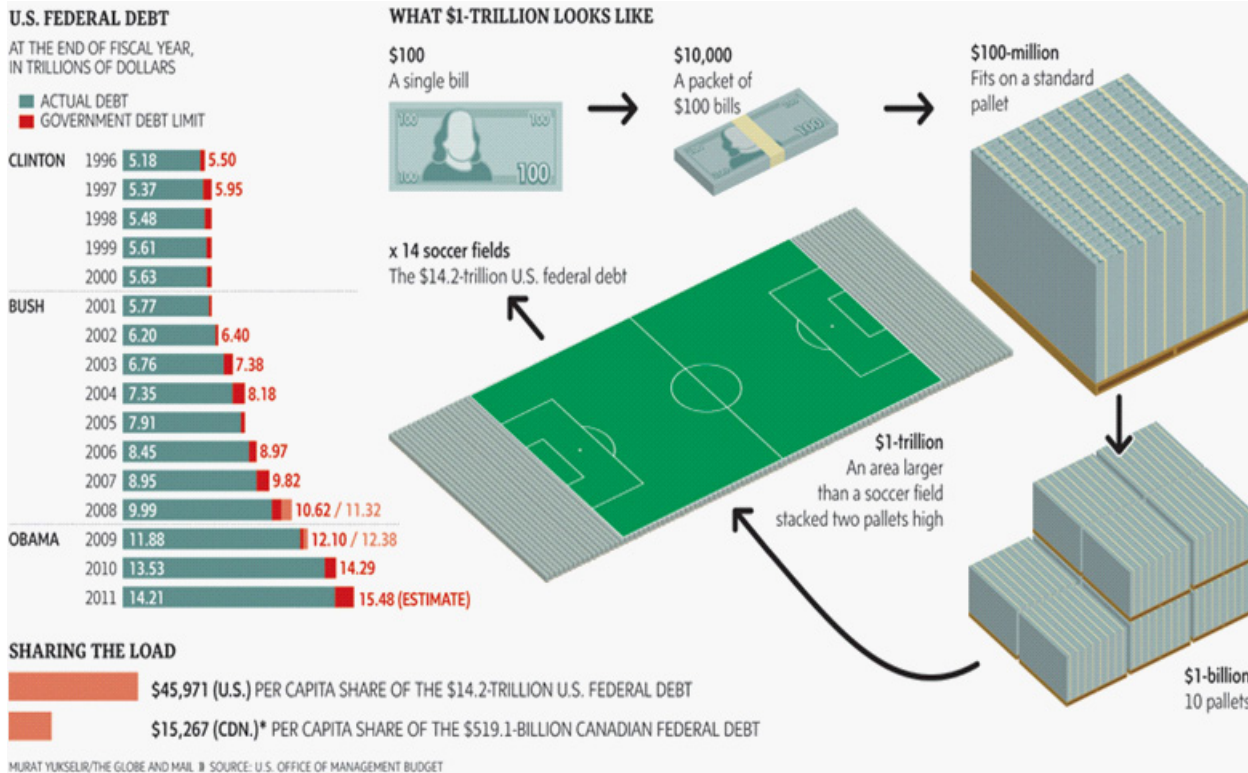
- The Federal National Mortgage Association (Fannie Mae) reports a loss of \$8.7 billion (U.S.) in the 1st. quarter, simultaneously requesting another \$8.5 billion (U.S.) in federal assistance. This new request is more than thrice the \$2.6 billion (U.S.) in government aid that it sought in the last quarter of 2010.

TUESDAY, MAY 10TH

- The National Association of Realtors reports the median price of a single-family home declined in 118 U.S. metropolitan areas out of 152 cities measured in the 1st. quarter, citing mounting foreclosures continuing to undermine real estate values
- China's global trade surplus expanded to \$11.4 billion (U.S.) in April, riling Washington and other trading partners who complain that China's currency controls and other policies are hampering world trade and a global economic recovery
- The Australian Bureau of Statistics reports the nation posted a seasonally adjusted trade surplus of \$1.74 billion (AUD) in March, following a revised surplus of \$87 million (AUD) in February. Ben Jarman, an economist with JP Morgan in Sydney observed: "We expect coal output to continue improving, as producers negotiate environmental issues associated with removing water from mining pits. However, the post-earthquake industrial slowdown in Japan – Australia's second-largest export partner – may mean softer demand (for coal) in the months ahead."
- A senior Greek government official, privy to the current talks with the European Union (EU) and the International Monetary Fund (IMF), informed reporters: "Greece expects that a June audit of its budgets will reveal that a new financial aid package of \$60 billion euros (\$86 billion U.S.) will be needed to cover its financial requirements into 2013." A Greek Finance Ministry spokesman commented: "The debate that is taking place is about finding a solution that is credible and in such a way, that there is no gap in covering Greek financing needs in 2012. These issues of extending current packages, or arranging new loans, will be discussed at a regularly scheduled meeting of EU finance ministers next Monday and Tuesday." In the meantime, German Chancellor Angela Merkel is refusing to commit her country to any bailout package changes and insists that "bold reforms" are the only way to make the economies of Greece and Ireland stronger.
- Unsurprisingly, the White House denounces House Speaker John Boehner's (R-Ohio) demand of yesterday, for \$2 trillion (U.S.) of spending cuts in exchange for Republican agreement to raise the U.S. statutory debt limit of \$14.3 trillion. White House Press Secretary Jay Carney complained to reporters: "Such maximalist positions do not lead to compromise. It is folly to hold hostage the vote to raise the debt ceiling ... to any other piece of legislation. (The purpose of) increasing the debt limit is intended to prevent the United States from defaulting on its (outstanding) obligations."



Australian coal being loaded on container ships bound for China and Japan – Bloomberg News

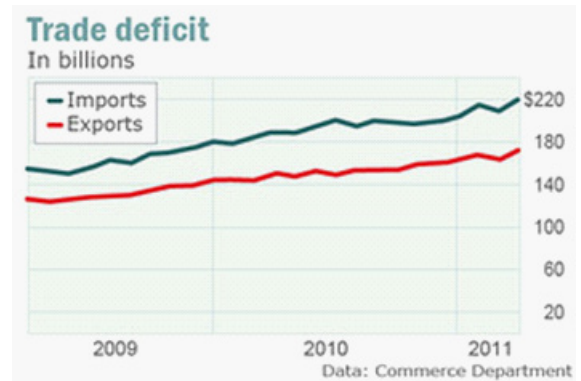


- In a Wall Street Journal article entitled “Why I Don’t Support Europe’s Bailouts,” Timo Soini, Chairman of the True Finn Party in Finland, states: “Insolvency must be purged from Europe’s system and it must be done openly and honestly. When I had the honour of leading the True Finn Party to electoral victory in April, we made a solemn promise to oppose the so-called bailouts of euro zone member states ... Europe is suffering from the economic gangrene of insolvency, both public and private. Unless we amputate that which cannot be saved, we risk poisoning the whole body. The official wisdom is that Greece, Ireland and Portugal have been hit by a liquidity crisis, so they needed a momentary infusion of capital, after which everything would return to normal. However, this official version is a lie, one that takes the ordinary people for idiots ... To understand the real nature and purpose of the bailouts, we first must understand who really benefits from them. Let’s follow the money ... A kind of deadly symbiosis has developed between politicians and banks: Our political leaders borrow ever more money to pay off the banks, which return the favour by lending increasingly more money back to our governments, keeping the game afloat ... Why did the Brussels / Frankfurt extortion racket force these countries to accept the money along with ‘recovery’ plans that would inevitably fail? (The reason) is because they needed to please the

tax-guzzling banks, which might otherwise refuse to participate in the next Spanish, Belgian, Italian, or even French (sovereign) bond auction ... Insolvent banks and financial institutions must be shut down, purging insolvency from the system. We must restore the (free) market principle of freedom to fail.”

WEDNESDAY, MAY 11TH

- The Commerce Department reports the U.S. trade deficit widened by 6% to \$48.2 billion (U.S.) in March from a downwardly revised \$45.4 billion (U.S.) in February, previously reported as \$45.8 billion (U.S.); citing higher oil imports eclipsing higher exports



- U.S. lawmakers of both political parties report their positions have become increasingly polarized for reaching an accord on reducing long-term government deficits, as party leaders rejected key elements of a possible bipartisan agreement to raise the U.S. debt limit of \$14.3 trillion. Republicans confirm they wouldn't agree to any measure that raised taxes or contemplated automatic tax increases to reduce future deficits. Democrats continue to insist that Social Security cuts be excluded from the discussions. Simultaneously, the two camps mapped out disastrous consequences resultant from the failure to reach an agreement by early August.

See also, Winter Warning, May 11, 2011 – The Unraveling of Debt

- A Greek general strike keeps ferries docked at ports, grounds flights and shuts hospitals and schools as unions renew protests against Prime Minister George Papandreou's plans to sell state assets and introduce new austerity measures
- Raj Rajaratnam, co-founder of the hedge fund Galleon Group LLC, is found guilty in a Manhattan court of 14 counts of insider trading, consisting of 5 counts of conspiracy to commit securities fraud and 9 counts of securities fraud
- At a London news conference, Bank of England Governor Mervyn King warned: "Although inflation fell to 4% in March, it remains uncomfortably high and well above the 2% target and there is a good chance that if utility prices rise further later in the year, inflation will reach 5% before falling back through 2012 and into 2013. There is a great deal of uncertainty in the outlook for inflation, being driven primarily by higher prices for commodities and imports, as well as an increase in Britain's VAT to 20%."
- Ireland's Minister of Finance Michael Noonan announces a jobs initiative strategy which includes a plan to institute a tax on private pensions in order to stimulate employment growth: "The various tax reduction and additional expenditure measures which I am announcing today will be funded by way of a temporary levy on funded pension schemes and personal pension plans. I propose that the levy will apply at a rate of 0.6% to the capital value of assets under management in pension funds managed by the State. It will apply for a period of four years commencing this year and is intended to raise about 470 million euros in each of those years. The levy will not apply to pension funds established here and providing services and benefits solely to non-resident employers and members."

- Statistics Canada reports the nation's trade surplus almost doubled in March to \$627 million (CAD) from \$356 million (CAD) in February, citing export gains in energy products and industrial goods and materials

THURSDAY, MAY 12TH

- The Labor Department reports U.S. claims for state unemployment benefits declined by 44,000 to a seasonally adjusted 434,000 in the week ended May 7th. from an upwardly revised 478,000 the prior week; while continuing claims increased by 5,000 to a seasonally adjusted 3.76 million in the week ended April 30th. The number of people who have exhausted their benefits but are receiving emergency or extended benefits under federal programs declined by 31,247 to 7.98 million in the week ended April 23rd.
- The Commerce Department reports U.S. retail sales rose by 0.5% in April to a seasonally adjusted \$389.4 billion (U.S.), following an upwardly revised gain of 0.9% in March, citing rising sales of food and energy
- The Labor Department reports the U.S. producer price index rose by 0.8% in April, while the core rate (excluding food and energy) increased by 0.3%
- In the ongoing debate over the raising of the U.S. statutory debt limit, during a White House meeting with the Senate Republican caucus, Senate Republican leader Mitch McConnell (R-Ky.) warned President Obama that over the next two years, he "must agree to cut spending for federal agencies and make significant changes to Medicare and Medicaid, which are projected to be the biggest drivers of future government borrowing. Doing it now would neutralize the issue for the 2012 presidential campaign."
- In an Rolling Stone article entitled The People vs. Goldman Sachs, reporter Matt Taibbi opines: "They weren't murderers or anything; they had merely stolen more money than most people can rationally conceive, from their own customers in a few blinks of an eye. However, they went one step further. They Came to Washington, took an oath before Congress and then lied about it."



Lloyd Blankfein, Chairman and CEO of the Goldman Sachs Group is sworn in prior to testifying before the Senate Homeland Security and Governmental Affairs Investigations Subcommittee on Capitol Hill in Washington. – April 27, 2010. Mark Wilson/Getty Images

Thanks to an extraordinary investigative effort by a senate subcommittee that unilaterally decided to assume the burden the criminal justice system has repeatedly refused to shoulder, we now know exactly what Goldman Sachs executives like Lloyd Blankfein and Daniel Sparks lied about ... We know how David Viniar and Thomas Montag defrauded their clients. America has been waiting for a case to bring against Wall Street. Here it is and the evidence ... doesn't leave much doubt: Goldman Sachs should stand trial."

See Also, Winter Warning, March 29, 2010 – A Rolling Stone Gathers No Moss – The Teflon Cloak Wears Thin – The Money Tree

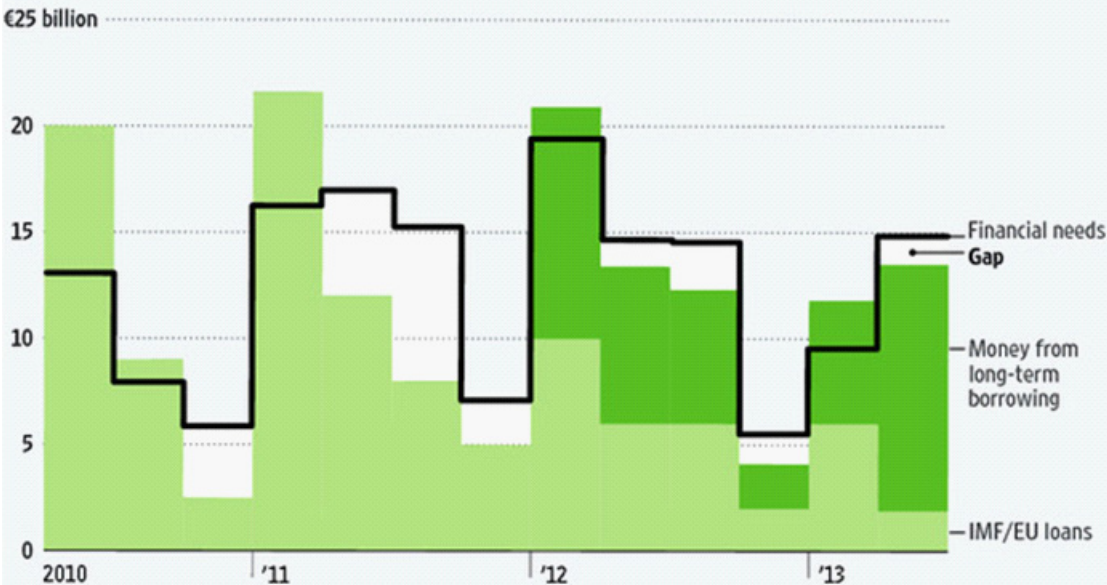
FRIDAY, MAY 13TH

- In a Frankfurt interview, Antonio Borges, Director of the IMF's European Office remarked that he didn't see "a miraculous restructuring solution" to Greece's debt woes; as a delegation of European and IMF officials continued to pore over the Greek government's finances in Athens.

On Borrowed Time

Greece is heavily reliant on bailouts from the European Union and International Monetary Fund for its financing needs, but will soon have to rely on long-term loans, which may be difficult to secure.

GREECE'S FINANCIAL NEEDS, COMPARED WITH ITS INCOME SOURCES



Note: €1 billion = \$1.4 billion; Doesn't include privatization receipts, which total €1 billion in the third quarter of 2011, or short-term debt
Source: European Commission

- Eurostat reports euro zone gross domestic product (GDP) rose by 0.8% in the first quarter and by 2.5% on a year-over-year basis; led by German GDP growth of 1.5% and 4.9%, respectively, according to the Federal Statistics Office
- Texas Representative Ron Paul announces his candidacy for the Republican nomination for U.S. President in 2012: "Time has come around to the point where the people are agreeing with much of what I've been saying for 30 years. So I think the time is right."
- The trustees of the two U.S. government health and pension programs for elderly Americans forecast that Medicare will exhaust its funds in 2024 – five years earlier than predicted – while Social Security will be insolvent in 2036, one year sooner than estimated.
- The Labor Department reports the U.S. consumer price index(CPI) rose by 0.4% in April, following an increase of 0.5% in March; while the core rate (excluding food and energy) rose by 0.2%

CLOSING LEVELS FOR FRIDAY, MAY 13TH.

WEEKLY CHANGE

Dow Jones Industrial Average	12,595.75	– 42.95 points
Spot Gold Bullion (June)	\$1,493.60 (U.S.)	+ \$2.00 per oz.
S&P / TSX Composite	13,377.16	– 189.44 points
10-Year U.S. Treasury Yield	3.17%	– 3 basis points
Canadian Dollar	103.23 cents (U.S.)	– 0.25 cent
U.S. Dollar Index Future (Spot Price)	75.71 cents	+ 0.796 cent
WTI Crude Oil (June)	\$99.65(U.S.)	+ 2.47 per barrel

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

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