

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



Monday, May 23rd

Taking to the steps of Oregon's state capitol in Salem on Friday, thousands of State workers, union members and advocacy groups attended a "Better Way" rally for alternatives to budget cuts, wage freezes and furlough days in Oregon

MONDAY, MAY 23RD

- Norway, Iceland and Liechtenstein announce the suspension of a \$42 million grant to Greece. In a statement posted on its website, the Norwegian Foreign Ministry declared: "Greece had committed to paying 50% of each project. This was not followed up. It's also unclear whether the money already transferred to the Greek authorities was forwarded to the appropriate recipients."
- Standard and Poors (S&P) lowers Italy's sovereign debt credit rating outlook from stable to negative, citing "fears that Italy's centre-right coalition government may struggle to cut the country's vast public deficit. Italy's current economic growth prospects are weaker than the current estimated GDP of 1.3% over the 2011-2014 period." Giulio Tremonti, Italy's finance minister, described S&P's outlook adjustment as "strange" because the European Commission (EC), the International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD) had all passed "very different" judgments on Italy's financial health.
- Spanish Prime Minister's Jose Luis Rodriguez Zapatero's Socialist Party suffers historic losses in Spain's municipal and regional elections on Sunday, as discontent with the country's dire economic situation escalated into nationwide protests. The opposition Popular Party, led by Mariano Rajoy, has won 37.55% of the municipal vote across the country; nearly 10% more than the Socialists and represents the largest differential between the two parties since 1991.
- Greece's Prime Minister George Papandreou dismisses any restructuring of his nation's debt, as a tougher austerity program – incorporating deeper cuts in public sector wages, together with tax increases and the privatization of state assets – is prepared by the Greek government to meet the terms of its \$110 billion (U.S.) bailout. Mr. Papandreou was supported by European Central Bank (ECB) Executive Board member Juergen Stark who commented: "A Greek debt restructuring is not the appropriate way forward – it would create a catastrophe – because it would damage the banking system."
- According to the U.S. National Association of Realtors annual survey, Canadians were the largest buyers of U.S. real estate in the 12 months ending March 31st, accounting for 23% of \$43 billion (U.S.) in total foreign sales. The Chinese moved into second place at 9%, while the British, Mexicans and Indians tied at 7%.
- The Canadian government rejects U.S. President Barack Obama's proposal for Israeli / Palestinian peace talks to be guided by the 1967 borders, with mutually agreed land swaps. At a press briefing ahead of the G8 economic summit in France, a senior Canadian government official commented: "What the Government of Canada supports is basically a two-state solution that is negotiated. If it's border (or) if it's other issues, they must be negotiated – there cannot be unilateral action."



Source: The Washington Post

- The preliminary results of a survey by financial-information firm Markit indicates economic growth in the euro zone declined by 0.7% in the current quarter, citing a sharp slowdown in the manufacturing sector

TUESDAY, MAY 24TH

- Antonas Samaras, leader of the Greek conservative opposition party refuses to accept new austerity measures totaling 6 billion euros, designed to further reduce Greece's debt burden arguing they would only cause another economic recession. European Union (EU) finance officials have insisted that Greece, which is struggling to meet the terms of an international \$154 billion (U.S.) bailout, needs all its political parties to support the austerity measures to ensure they can be implemented smoothly.

- The Office for National Statistics reports the U.K. deficit widened to 10 billion pounds (\$16.2 billion U.S.) in April, compared with a shortfall of 7.2 billion pounds in the same month a year ago, citing a 0.8% decline in tax revenue and a 0.5% increase in spending
- Fitch Ratings confirms Belgium's sovereign debt credit rating at 'AA' (High) but lowers its rating outlook from stable to negative. In a statement, Douglas Renwick, a director in Fitch's sovereign group, warned: "The negative outlook reflects Fitch's concerns over the (government's) pace of structural reform over the coming years and the ability to accelerate fiscal consolidation without a resolution to the constitutional crisis."

- Eurostat reports factory orders across the euro zone declined by 1.8% in March, the sharpest monthly drop since September, 2010
- The Commerce Department reports U.S. new home sales rose by 7.3% in April to an annual pace of 323,000 units. Robert Brusca, chief economist at Fact and Opinion Economics in New York commented: "Affordability is good and we are getting some job growth."
- Moody's Investors Service warns: "A Greek sovereign debt default could spark contagion, since it would have major implications for the euro zone, possible leading to downgrades across the continent that would deepen the European debt crisis. Adverse credit rating implications would not be limited to Greece, but to other stressed European sovereigns, Greek banks and other financial institutions and corporates in the currency zone. The impact on Greece's credit rating would depend upon the extent of the default, but would most likely cause the country's credit rating to be downgraded several levels to 'Ca' or 'C'. (Moreover), the Greek banking sector would require recapitalization to offset banks' losses on Greek government bonds and continued liquidity support from the European Central Bank (ECB)."
- China's Dagong Credit Rating Co. downgrades the U.K.'s local and foreign currency sovereign debt credit rating to 'A' (High) from 'AA' (Low) citing: "The deteriorating debt repayment capability of the U.K. and the difficulty in improving its sovereign credit level in a moderately long-term future. Uncertainties arising from the Bank of England's future monetary policy and the impact of debt-laden European countries on the British financial system are likely to further worsen the government's fiscal status. We expect the U.K. GDP growth rate to show little or no change in the coming two years, which directly curbs the improvement of the national economic status."
- Moody's Investors Service warns it may cut its credit rating for 14 British financial groups following a reassessment of the level of systemic support they require. Elisabeth Rudman, a Moody's senior credit officer elaborated: "The reassessment is not driven by, either deterioration in the financial strength of the banking system, or that of the government. (Rather) it has been initiated in response to ongoing guidance from the U.K. authorities, i.e. the Bank of England, the Financial Services Authority (FSA) and the U.K. Treasury, that banks which fail in the future should not expect capital injections from the public purse. The credit rating outlook for Barclays has been lowered to negative from stable and the credit rating for HSBC has been affirmed with a negative

outlook." Financial institutions which could be downgraded by Moody's include the following:

1. Royal Bank of Scotland
2. Santander UK
3. Lloyds TSB Bank
4. Bank of Ireland UK
5. Co-Operative Bank
6. Coventry Building Society
7. Nationwide Building Society
8. Newcastle Building Society
9. Norwich and Peterborough Building Society
10. Nottingham Building Society
11. Principality Building Society
12. Skipton Building Society
13. West Bromwich Building Society
14. Yorkshire Building Society

- The Chicago Federal Reserve Bank reports its National Activity Index fell to a reading of - 0.45 in April from a level of + 0.32 in March, citing declines in production-related indicators and a drop in manufacturing capacity utilization to 74.4% in April from 74.8% in March

WEDNESDAY, MAY 25TH

- San Francisco-based LCH Clearnet Ltd., a clearing house for securities, announces it will raise margin requirements for long positions of Irish government bonds to 65% from 55%, effective Thursday
- The Federal Housing Finance Agency's seasonally adjusted U.S. home price index declined by 2.5% in the 1st. quarter, compared to the 4th. quarter of 2010
- In a 5-4 decision, the U.S. Supreme Court orders the State of California to release tens of thousands of prisoners to relieve overcrowding, stating: "Needless suffering and death" has resulted from putting too many inmates into facilities that cannot hold them in decent conditions. Speaking for the majority, Justice Anthony Kennedy commented: "California's prisons have fallen short of minimum constitutional requirements because of overcrowding. The State has no choice but to release prisoners." Despite the ruling sharply dividing the high court, the Justices agreed that California officials should be given more time to implement the needed reductions. In a direct dissent, Justice Antonin Scalia declared the ruling "staggering and absurd. Terrible things are sure to happen as a consequence of this outrageous order." Justice Clarence Thomas agreed with him.



Inmates sit for dinner at the California State Prison in Lancaster – Source: Los Angeles Times

- The Commerce Department reports U.S. consumer spending rose at a downwardly revised annual pace of 2.2% in the 1st. quarter, previously estimated at 2.7%

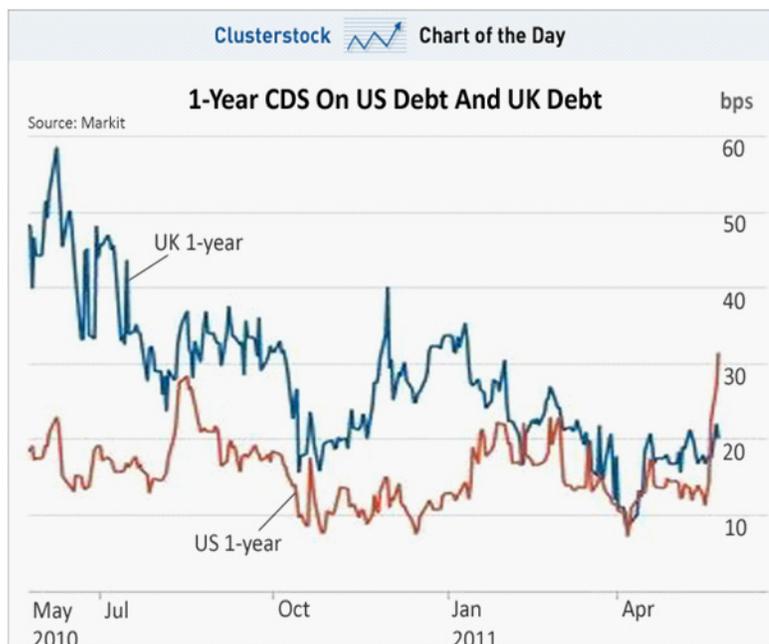
FRIDAY, MAY 27TH

- According to the Fiscal Monitor, a monthly Finance Canada report, the federal government's deficit amounted to \$34.4 billion (CAD) in the fiscal year ended March 31, 2011 – down from the \$47 billion (CAD) recorded in fiscal 2010
- Fitch Ratings lowers its outlook for Japan's sovereign debt credit rating to negative from stable, citing "the risks associated with the nuclear power plant crisis and noting that the country's debt to gross domestic product (GDP) ratio is already the highest of any nation it monitors, at 210% of GDP at the end of 2010. Failure to strengthen the commitment to fiscal consolidation, or the emergence of substantial additional fiscal or economic costs from the process of reconstruction post the March 11th. earthquake and tsunami, could trigger a rating downgrade." Separately, Bank of Japan Governor Masaaki Shirakawai warns the Japanese government: "Losing market confidence would spark a negative mutual interaction involving the nation's fiscal state, the financial system and the real economy, that would undermine economic activities."
- According to diplomats attending the Group of Eight summit in Paris, French Finance Minister Christine Lagarde's candidacy to become the International Monetary Fund's next managing director has received Russian support

THURSDAY, MAY 26TH

- The Commerce Department reports U.S. durable goods orders declined by 3.6% in April, citing lower aircraft demand and disruptions in supplies in auto parts stemming from the March 11th. earthquake and tsunami in Japan
- According to the Organization for Economic Co-operation and Development (OECD), Canada ranks # 2 behind Australia, as a country with the best quality of life in the world
- The Labor Department reports U.S. initial claims for state unemployment benefits increased by 10,000 to 424,000 in the week ended May 21st. while continuing claims declined by 46,000 to 3.69 million in the week ended May 14th. Those people who have exhausted their traditional benefits, but are now receiving emergency or extended benefits under federal plans declined by 63,215 to 4.05 million in the week ended May 7th.
- At a Luxembourg conference, Jean-Claude Juncker, Chairman of the European Finance Ministers, warned: "Greece is unlikely to be able to guarantee its funding over the next 12 months, preventing the International Monetary Fund (IMF) from releasing funds under its own rules. The IMF can only be active when there is a refinancing guarantee for 12 months. I do not believe that the European Union, European Central Bank and IMF will decide this condition had been met (on June 29th.) I don't think the troika will come to this result."

- According to Bloomberg News, Credit Suisse Group (CS), Goldman Sachs Group (GS) and Royal Bank of Scotland Group Plc (RBS) each borrowed at least \$30 billion (U.S.) in 2008 from a Federal Reserve lending program whose details weren't revealed to shareholders, members of Congress, or the public. The \$80 billion (U.S.) initiative, named the single-tranche open-market operations, or ST OMO, made 28-day loans from March through December 2008, a period in which global credit markets collapsed after the September 15th. bankruptcy of Lehman Brothers Holdings Inc. Units at 20 banks were required to bid at auctions for the cash. They paid interest rates as low as 0.01% that December, when the Fed's main lending facility was charging 0.5%. Robert Eisenbeis, former research manager at the Federal Reserve Bank of Atlanta and currently chief monetary economist at Sarasota, Florida-based Cumberland Advisors Inc. commented: "The Fed hasn't been forthcoming with disclosures overall. Why should this be any different." See also, Winter Warning, June 1, 2011 – Fed Up With the Fed



The chart of 1-year credit default swap yields indicates some investor nervousness with all the potential “technical U.S. default” speculation permeating through the fixed income marketplace

- An Italian court convicts the former Governor of Italy’s central bank, Antonio Fazio, of stock market manipulation and sentences him to four years in prison, for his involvement in the takeover battle for the Italian lender Banca Antonveneta

CLOSING LEVELS FOR FRIDAY, MAY 27TH.

WEEKLY CHANGE

Dow Jones Industrial Average	12,441.58	– 70.46 points
Spot Gold Bullion (July)	\$1,536.30 (U.S.)	+ \$ 27.40 per oz.
S&P / TSX Composite	13,797.59	+ 145.32 points
10-year U.S. Treasury Yield	3.07%	– 8 basis points
Canadian Dollar	102.32 cents (U.S.)	– 0.40 cent
U.S. Dollar Index Future (Spot Price)	74.796 cents	– 0.863 cent
WTI Crude Oil (July)	\$100.59 (U.S.)	+ \$ 0.49 per barrel

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