

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



Monday, May 30th

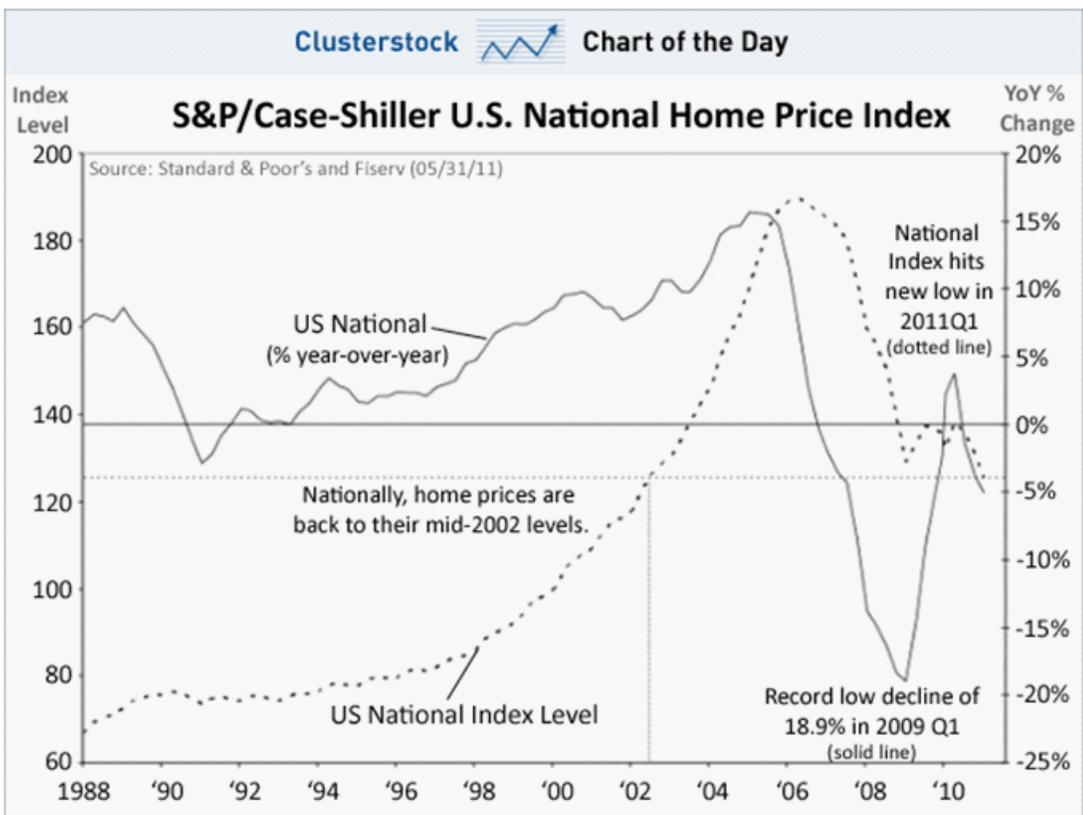
According to a British Broadcasting Corp. (BBC) report, the German government plans to shut down all of its nuclear power plants by 2022, in the wake of the Fukushima nuclear plant disaster in Japan, following the earthquake and tsunami on March 11th.

MONDAY, MAY 30TH

- Denis Lemelin, national President of the Canadian Union of Postal Workers (CUPW) issues an ultimatum to Canada Post which places the postal workers in a legal position to strike as of midnight on Thursday, June 2nd. After seven months of negotiations, CUPW made a final offer today which outlines several amendments and clarifications to its positions – including a downward revision in its wage demands.
- In a question and answer session at a Tokyo conference of the Foreign Correspondents' Club of Japan, Mark Mobius, Executive Chairman of Templeton Asset Management's emerging markets group warned: "There is definitely going to be another financial crisis around the corner because we haven't solved any of the things which caused the previous crisis." Mr. Mobius, who oversees in excess of \$50 billion (U.S.) in investment funds added: "The total value of derivatives in the world exceeds total global gross domestic product (GDP) by a factor of 10. With that volume of bets in different directions, volatility and equity market crises will occur."
- Statistics Canada reports the nation's gross domestic product (GDP) grew at an annual pace of 3.9% in the 1st. quarter, despite weak government spending and flat consumer spending. Michael Gregory, senior economist at BMO Capital markets in Toronto commented: "We will be hard pressed to eke out half of this pace in the 2nd. quarter."
- According to the U.K. Telegraph, a senior Russian police officer, accused of causing the death in custody of Sergei Magnitsky, an investigative lawyer working for U.K.-based hedge fund Hermitage Capital Management has been cleared of wrongdoing. Today, the Russian General Prosecutor's Office cleared the police officer ruling: "There were no violations of the Federal law which infringed upon the constitutional rights of the participants of the criminal case by the police officer." Mr. Magnitsky was arrested on alleged tax evasion charges after the lawyer accused the arresting officer of helping to orchestrate a \$230 million (U.S.) fraud against the Russian state. Mr. Magnitsky was detained in a worsening series of squalid prison cells for a year without going to trial, while being refused not only, access to his family, but also, medical attention after developing health problems. Mr. Magnitsky died in jail 11 months later at the age of 38. Last month, a human rights commission appointed by President Dmitry Medvedev found that the Russian police had fabricated the tax evasion charges against Mr. Magnitsky. Obviously, the Russian judicial system is nothing more than a national and international joke of pathetic proportion. Woe be unto the Western economies who support Russian admission to the World Trade Organization (WTO). Wake up call for U.S. President Obama: 'He who hath ears to hear, let him hear!'

TUESDAY, MAY 31ST

- Moody's Investors Service places Japan's Aa2 sovereign debt rating on credit watch for possible downgrade citing: "The review has been prompted by heightened concern that faltering economic growth prospects and a weak (government) policy response will increase the challenge for the government's ability to fashion and achieve a credible deficit reduction target. (While) a Japanese government bond issuance crisis is unlikely in the near-term to medium-term, pressures could increase over the longer term ... (when) a tipping point could be reached, at which (time) the (bond) market would price in a risk premium for government debt. Much greater than-initially-expected economic and fiscal costs from the March 11th. earthquake and tsunami have magnified the effects of the global financial crisis, from which Japan's economy has not wholly recovered."
- The S&P/Case-Shiller index of property values in 20 U.S. cities declined by 3.6% in March from March 2010 to a reading of 138.16 – the biggest year-over-year decline since November 2009 – citing a backlog of foreclosures poised to reach the market means house prices may remain depressed and dissuade home builders from assuming new construction projects
- The Conference Board's U.S. consumer confidence index declined to a reading of 60.8 in May from a revised reading of 66 in April, citing consumer concerns about a drop in disposable income due to higher food and gasoline prices
- The Institute for Supply Management-Chicago Inc. reports its manufacturing index declined to a reading of 56.6 in May from a level of 67.6 in April, the lowest reading since November 2009. Jim O'Sullivan, global chief economist at MF Global Inc. in New York commented: "There is a consistent story across regions that manufacturing was slowing during May ... Japan supply-chain issues appear to be part of the story, in addition to the impact of the rise in oil and gasoline prices earlier this year."
- Data from Spain's Finance Ministry reveals the central government reduced its budget deficit by 53% in the first four months of 2011 to 2.45 billion euros, equal to 0.2% of its gross domestic product (GDP). Finance Minister Elena Salgado commented: "The government's target of an overall public sector deficit of 6% of GDP in 2011 is not in danger. Strong performing regions of the nation and the central government will be able to compensate for any budget deficits in the weaker regions."



- Bank of Canada Governor Mark Carney maintains the Bank Rate at 1% citing Canadian economic growth is already contracting from an impressive 1st. quarter performance. Mr. Carney indicated the central bank is concerned about a slowdown in U.S. consumer spending, the “persistent strength” of the Canadian dollar and “while Europe’s (economic) recovery has momentum, risks linked to its debt problem have escalated. To the extent that the (economic) expansion continues, and the current material excess supply in the economy is gradually absorbed, some of the considerable monetary stimulus currently in place will eventually be withdrawn.”
- The Department of Agriculture reports the percentage of Americans turning to food stamps has risen in nearly every state to 44.6 million people in March, an increase in excess of 11% from the same period in 2010
- Bank of Ireland bondholders face losses of up to 90% on subordinated debt worth 2.6 billion euros, as the bank has been ordered by the Irish government to raise 5.2 billion euros by the end of July. Separately, Irish Life and Permanent and the EBS Building Society announced they would also impose losses of 80% to 90% of the face value of 1.1 billion euros of junior bonds. The three banks stated that if bondholders refused the offers, the Irish government would “take whatever steps necessary to maximize burden sharing.” Some fixed income investors have already initiated legal action to challenge the Irish government’s “haircut” actions. Michael Noonan, Ireland’s Finance Minister, stated: “The burden-sharing now being proposed is “the minimum acceptable to the government.” This represents a very ominous chapter in the century-old history of the modern day bond market, basically government-sanctioned theft.



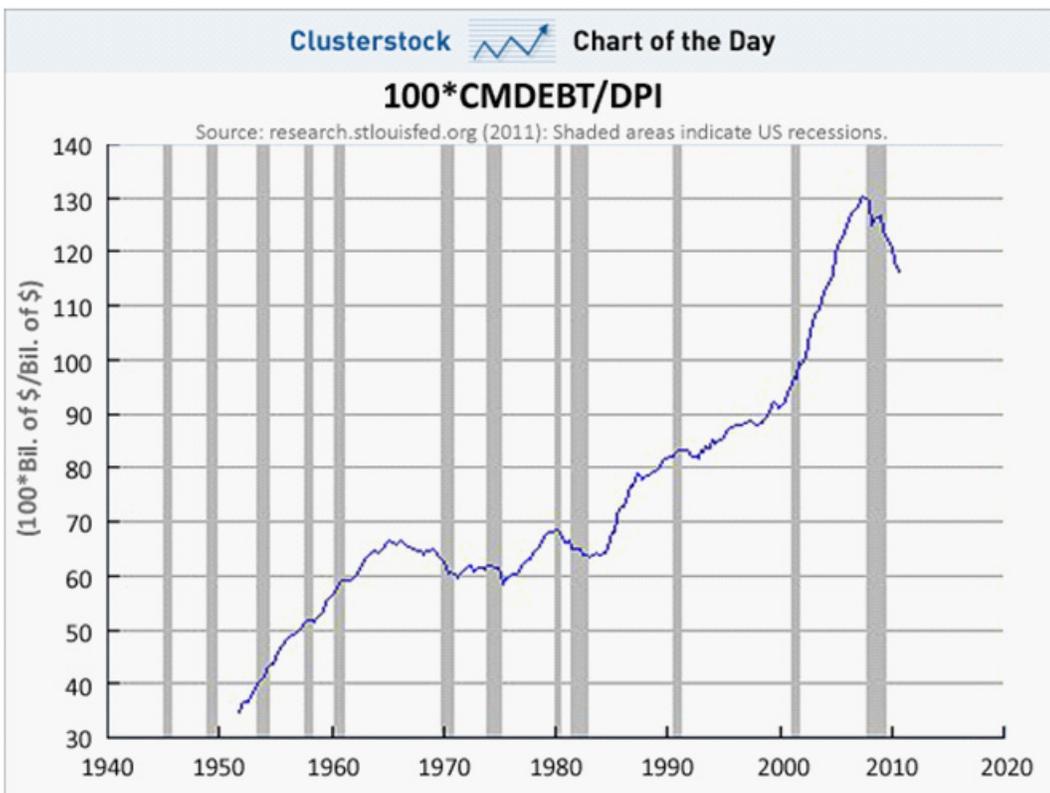
Source: U.K. Telegraph

- Reuters News reports tens of thousands of Greeks vented their anger at the nation’s political classes on Sunday, staging the biggest rally in a week of protests as the government seeks backing for yet more austerity. Greeks are angry no politicians have been punished for the corruption they blame for the debt crisis and the poor economy.

WEDNESDAY, JUNE 1ST

- ADP Employer Services reports private sector employment increased by 38,000 in May – the smallest increase since September 2010 – from a revised gain of 177,000 in April. Eric Green, chief economist at TD Securities in New York commented: “The weakness reflects a general (economic) slowdown and a downturn in sentiment following the sharp increase in energy prices, (supply) disruptions from Japan and to a lesser extent, risk aversion stemming from the Greek (debt) crisis.”
- The Bureau of Statistics reports Australia’s gross domestic product (GDP) contracted by 1.2% in the 1st. quarter, compared with a revised expansion of 0.8% in the final quarter of 2010, citing record flood and cyclone damage caused an 8.7% decline in exports
- The Tempe, Arizona-based Institute for Supply Management reports its factory index declined to a reading of 53.5 in May – the lowest level since September 2009 – from a reading of 60.4 in April, citing the higher cost of commodities and an interruption in the supply of parts from Japan following the March 11th. earthquake and tsunami
- The China Federation of Logistics and Purchasing reports its purchasing managers’ index (PMI) declined to a reading of 52 in May from a level of 52.9 in April, citing the government’s extended campaign of raising administered interest rates in order to reduce the inflation rate and speculation in the real estate market
- Target Corp. doubles its Canadian renovations budget to \$2.3 billion (CAD) to convert Zellers stores into Target outlets over the next two years. In U.S. regulatory filings, Target also revealed that it plans “to open 100 to 150 new stores in Canada, primarily during 2013. We are still in the process of evaluating each location currently leased by Zellers. We have the right to select up to 115 additional leases in advance of the second payment, (due) in the 3rd. quarter of 2011.”

- According to Markit’s most recent purchasing managers’ index (PMI) survey, euro zone retail sales declined in May to a level only marginally higher than a year ago. Of the three largest euro zone economies surveyed, Italy remained the chief source of weakness, while France and Germany both registered slower retail sales
- Mary Miller, Assistant Secretary for Financial Markets at the U.S. Department of the Treasury, issues the following statement as a reminder to the United States Congress: “On the basis of careful analysis of actual and projected revenues and expenditures, the Treasury Department continues to project that the United States will exhaust its borrowing authority under the debt limit on August 2, 2011. (Treasury) Secretary Geithner continues to urge Congress to avoid the catastrophic economic and market consequences of a default crisis by raising the statutory debt limit in a timely manner.”
- From the Business Insider, a long-term chart of U.S. household debt as a percentage of disposable personal income (outlined below), clearly illustrates that considerable consumer deleveraging is necessary before the U.S. economy can achieve, not only any meaningful decline in the unemployment rate, but also, any self-sustaining GDP growth
- The U.S. auto industry suffers its first significant setback in more than 18 months, as new car and truck sales declined 3.7% in May, adversely affected by higher prices and supply shortages among Japanese brands. Hyundai Motor Co. and Chrysler Group LLC posted sales gains, while almost all other major car manufacturers reported declines in sales.
- Moody’s Investors Service downgrades Greece’s sovereign debt credit rating to Caa1 from B1, with a negative outlook, citing increased risk that the country will be unable to solve its debt problems without an eventual restructuring – paying creditors less than the full amount owed, or at extended maturity dates. Moody’s also cited “the country’s highly uncertain (economic) growth prospects and the missed targets in budget reforms being initiated” in return for a 110 billion euro bailout package from the European Central Bank (ECB) and International Monetary Fund (IMF). Moody’s elaborated: “The first trigger for today’s downgrade is Moody’s view that Greece is increasingly likely to fail to stabilize its debt ratios within the time frame set by previously announced fiscal consolidation plans.”



- In a Wall Street Journal article entitled Chinese Fuel Vancouver Home Boom, reporter Monica Gutschli relates: “A fresh wave of Chinese buyers, coupled with Canada’s already frothy home prices, has vaulted Vancouver into the ranks of the world’s most unaffordable real estate markets ... The Canadian Real Estate Association reports the average house price in Canada in April was \$372,544 (CAD), up 8% from April 2010. In Vancouver, it was more than twice the average at \$815,212 (CAD), up 21% from a year ago ... In a May press release, the real estate brokerage firm RE/MAX reported sales of homes worth more than \$2 million (CAD) soared by 118% in Vancouver in the first four months of this year. The average price in the high-end segment now exceeds \$3 million (CAD) ... Eric Christiansen, a top real estate agent in affluent West Vancouver, estimates that the Chinese (population) comprises a small percentage of the total Vancouver market, but dominates the high-end sectors of the city ... He states that in West Vancouver as a whole, 16 homes sold for more than \$5million (CAD) (each) this year and 14 of those sales went to Chinese buyers.”



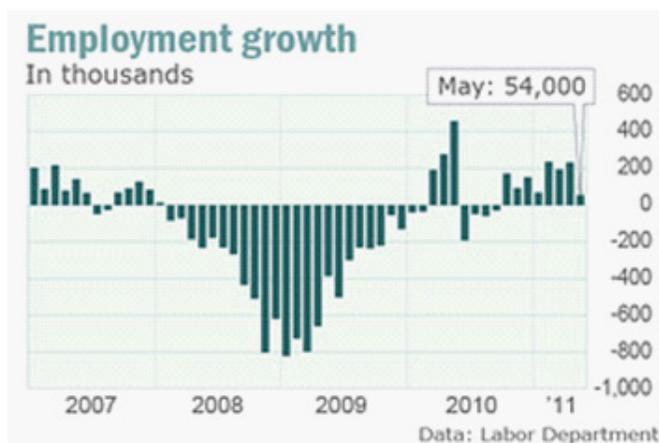
THURSDAY, JUNE 2ND

- According to unnamed but informed sources, Goldman Sachs has received a subpoena from the Manhattan District Attorney’s office, seeking information regarding the firm’s activities leading into the credit crisis. The request relates to the U.S. Senate’s Permanent Subcommittee on Investigations report on Wall Street’s role in the housing market collapse, which accused Goldman Sachs of misleading clients about mortgage-backed securities.
- The Labor department reports U.S. initial jobless claims declined by 6,000 to 422,000 in the week ended May 28th. from an upwardly revised 428,000, previously reported as 424,000; while continuing claims were relatively unchanged at a seasonally adjusted 3.71 million in the week ended May 21st.

- In a speech in Aachen, Germany, European Central Bank President Jean Claude Trichet suggests the 17-member European Union governments establish a finance ministry: “Would it be too bold, in the economic field, with a single market, a single currency and a single central bank, to envisage a single ministry of finance for the union?”
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- Moody’s Investors Service places the credit ratings of Bank of America, Citigroup and Wells Fargo on review for a possible downgrade. In a statement, Moody’s noted: “The banks’ present ratings are based upon uplift from Moody’s systemic support assumptions that were increased during the financial crisis. A review will focus on whether these ratings should be adjusted to remove this unusual uplift and include only pre-crisis levels of government support.”
- The Commerce Department reports U.S. factory orders declined by 1.2% in April following a gain of 3.8% in March
- Moody’s Investors Service warns of a “very small but rising risk” that the United States could default on its debt citing: “Although Moody’s fully expected political wrangling prior to an increase in the statutory debt limit, the degree of entrenchment into conflicting positions has exceeded expectations. The heightened polarization over the debt limit has increased the odds of a short-lived default. If the debt ceiling is increased, America’s ‘AAA’ (sovereign debt credit) rating would be maintained ... Ultimately, the fate of the U.S. credit (rating) outlook will be linked to what kind of substantive deal on long-term fiscal reform Republicans and Democrats are able to reach. The debt limit negotiations represent a real near term opportunity for agreement on a plan for fiscal consolidation. If this opportunity passes, Moody’s believes the likelihood of anything significant being accomplished before the next presidential election is (much) reduced.”

FRIDAY, JUNE 3RD

- The Labor Department reports U.S. non-farm payrolls increased by a seasonally adjusted 54,000 in May, while the official unemployment rate rose to 9.1% from 9.00% in April, continuing a series of negative economic data during the week



- New York City Mayor Michael Bloomberg proposes a \$65.7 billion (U.S.) fiscal 2012 budget to the City Council which contains no new taxes but would eliminate 6,000 teacher positions. Mayor Bloomberg cited: "Reductions in state and federal funding will mean fewer jobs because we are not immune to the realities in Albany and Washington. The reality is both places are keeping more of our tax dollars (in an attempt) to close their own budget deficits."

- In a joint statement the International Monetary Fund (IMF), the European Union (EU) and the European Central Bank (ECB) report: "While Greece has made significant progress on economic reforms, the government has committed to an ambitious medium-term fiscal strategy that will enable it to maintain its 2011 and medium-term fiscal targets. This strategy includes a significant downsizing of public sector employment, restructuring or closure of public entities; and rationalization in entitlements while protecting vulnerable groups. On the revenue side, the government will reduce tax exemptions, raise property taxation, and increase efforts to fight tax evasion. Greece has also agreed to establish an independently managed privatization agency," suggesting the Greek government would lose direct control of asset sales that are aimed at raising \$70 billion (U.S.) by 2015. The Greek Finance Ministry stated it would present the latest austerity and reform package to the Greek parliament within the next few days.

Will the United States Congress and the White House take a lesson from this?

CLOSING LEVELS FOR FRIDAY, JUNE 3RD.

WEEKLY CHANGE

Dow Jones Industrial Average	12,151.26	- 290.32 points
Spot Gold Bullion (July)	\$1,542.40 (U.S.)	+ \$ 6.10 per oz.
S&P / TSX Composite	13,517.91	- 279.68 points
10-year U.S. Treasury Yield	2.99%	- 8 basis points
Canadian Dollar	102.22 cents (U.S.)	- 0.10 cent
U.S. Dollar Index Future (Spot Price)	73.66 cents	- 1.136 cent
WTI Crude Oil (July)	\$100.22 (U.S.)	- \$ 0.37 per barrel

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