

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



Monday, June 13th

Standard & Poors downgrades Greece's sovereign debt credit rating to 'CCC' from 'B' with a negative outlook citing: "Our view is that there is a significantly higher likelihood of one or more defaults. Risks for the implementation of Greece's European Union (EU)

MONDAY, JUNE 13TH

/ International Monetary Fund (IMF) borrowing program are rising, given Greece's increased financing needs and ongoing internal political disagreements surrounding the policy conditions required." Vincent Truglia, Managing Director at Granite Springs Asset Management in New York commented: "Greece will default – it's a matter of when, rather than if. It's a basic solvency issue rather than a liquidity issue and only a debt write down will do."

See also, Winter Warning May 10, 2011 – The Unraveling of Debt and This Greek Tragedy Transcends Shakespeare

- David Prentis, general secretary of the U.K.'s largest public sector labour union warns: "1.2 million local authority and health service workers are on the road to industrial action in the autumn, unless the government retreats from its proposed pension reforms. Union officials will be undertaking the biggest ballot ever held in this country, unless crisis talks with the government later this month leads to a new agreement ... There is a perfect storm (brewing) of pension (contribution) increases and pay freezes which could lead to public sector workers having their earnings cut by as much as 10%." Mr. Prentis' warning precedes an announcement anticipated tomorrow from the Association of Teachers and Lecturers (ATL) and the National Union of Teachers (NUT), of ballot results for industrial action over government measures which will see them working longer hours, contributing more to their pension funds and receiving less upon retirement.

- A 12-member jury convicts three hedge fund traders in New York on all charges of securities fraud and conspiracy, related to a separate case wherein Galleon Group founder Raj Rajaratnam was found guilty of insider trading a month ago. Zvi Goffer, a former employee at Galleon, whom prosecutors named as the 'ringleader' of a scheme involving traders and lawyers, was found guilty of 14 counts of conspiracy and securities fraud. His brother Emanuel Goffer and Michael Kimmelman, who are both traders, were each convicted of conspiracy and two counts of securities fraud. They face up to 20 years in prison on each securities fraud count and a possible 5-year sentence on each count of conspiracy. Zvi Goffer will be sentenced on September 21st. while Emanuel Goffer and Mr. Kimmelman are to be sentenced on October 7th.

TUESDAY, JUNE 14TH

- In a seven-page statement filed on June 8th. in an Arizona state court in Phoenix, William Nixon, a Department of Housing and Urban Development (HUD) assistant regional inspector general, cited numerous situations in late 2010 when officials of Charlotte, N.C.-based Bank of America Corp. (BofA) "significantly hindered" a federal investigation of the Bank's foreclosure practices. Mr. Nixon stated BofA lawyers refused "on a number of occasions ... to allow (bank) employees to answer questions" about changes in the bank's foreclosure process. When HUD investigators tried to conduct a previously scheduled "walk-through of the documentation group," an outside

lawyer and a BofA vice president “asserted that they did not understand the need for a walk-through and instead showed my staff a set of file cabinets.” The Arizona attorney general’s office filed a lawsuit last December against Countrywide Financial Corp. – the mortgage lender acquired by BofA in 2008. The State’s allegations include violations of Arizona consumer protection laws in the processing of troubled loans.

Yet again, we are reminded that the legacy of incompetence and ignorance of former BofA President & CEO Ken Lewis (now retired) remains alive and well. See also, Winter Warning February 2, 2009 – The Clash of Cultures.

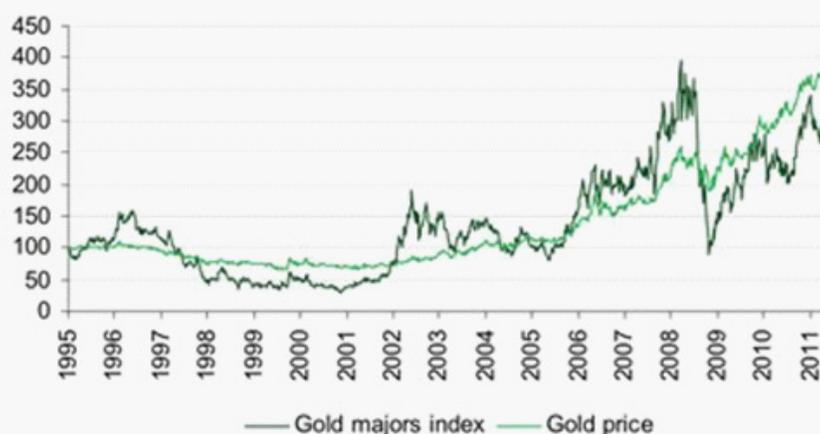
- The Commerce Department reports U.S. retail sales declined by 0.2% in May to a seasonally adjusted \$387.1 billion (U.S.) following a downwardly revised gain of 0.3% in April, citing a sharp drop in receipts from auto dealerships
- In a new report, Standard Chartered outlines its bullish case for \$5,000 (U.S.) gold bullion over the current decade: “We conclude that gold production growth will be limited, which will continue to fuel the gold cycle. We believe demand will be driven by continued growth in per capita gross domestic product (GDP) in China and India, a weak U.S. dollar and high inflation, which have fueled doubt in the credibility of paper currency. Ironically, central banks, which collectively had been net buyers of gold until 2010, would also be a powerful force driving gold demand.” Standard Chartered’s advice is to invest in physical gold and for those willing to assume additional risk, invest in junior gold companies. See Longwave Analytics website – Companies We Like. See also Winter Warning, October 19, 2009 – All That Glitters is Gold

- In a Washington speech, U.S. Federal Reserve Chairman Ben Bernanke warns: “Failure to raise the (statutory) debt ceiling in a timely way would be self-defeating if the objective is to chart a course toward a better fiscal situation for our nation ... Even a brief default on U.S. debt could cause severe disruptions in financial markets and the payments system; induce ratings downgrades of U.S. government debt; create fundamental doubts about the creditworthiness of the United States and damage the special role of the dollar and U.S. Treasury securities in global markets in the longer term ... Fiscal policymakers could look now to find substantial savings in the 10-year budget window – enforced by well-designed budget rules – while simultaneously, undertaking additional reforms to address the long-term sustainability of entitlement programs.” See also, Winter Warning, March 30, 2011 – The Coming International Trade Crisis – Summary

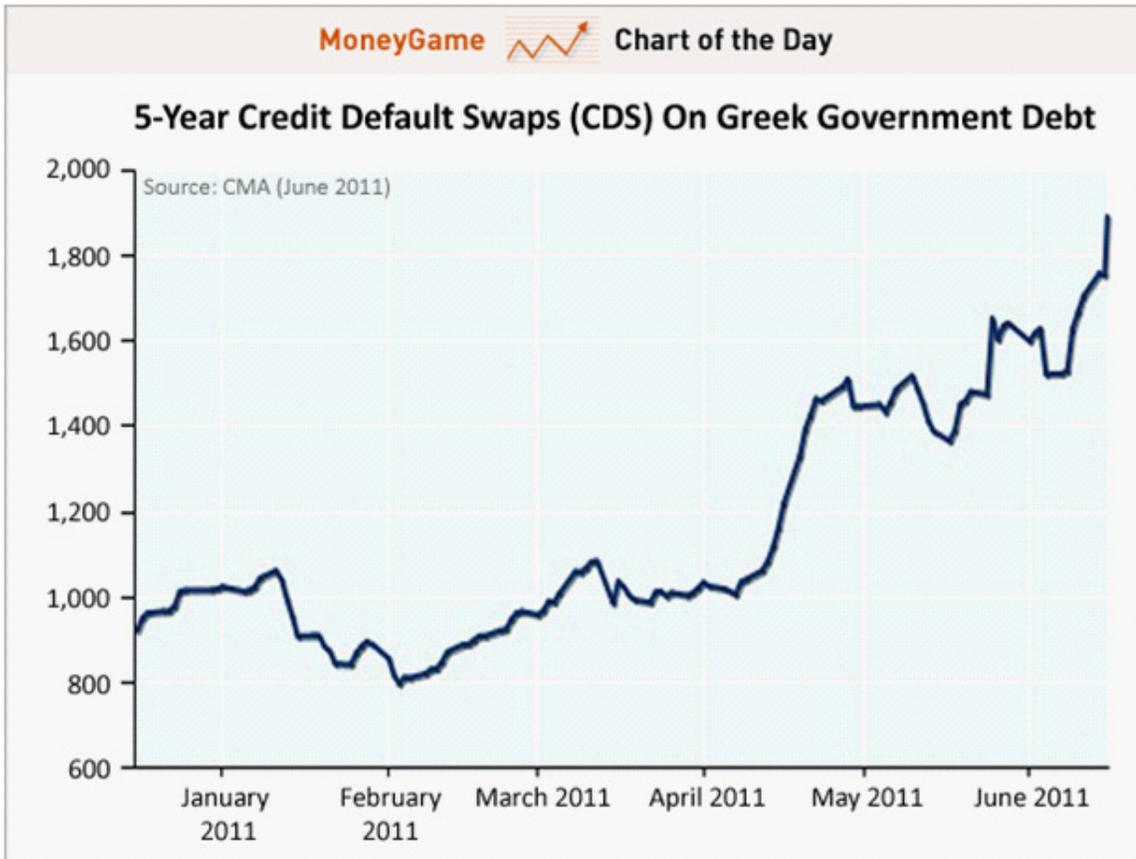
WEDNESDAY, JUNE 15TH

- The Labor Department reports the U.S. consumer price index (CPI) rose by 0.2% in May and 3.6% on a year-over-year basis, citing higher prices for autos and raw materials
- Investor worries over Greece’s fiscal crisis escalate as thousands of citizens join a 24-hour general strike to protest against the latest austerity measures initiated by Athens; while in a televised address, Prime Minister George Papandreou announces he will form a new government and is expected to seek a vote of confidence from the parliament

Fig 3: Gold price vs gold majors index



Based on a universe of gold majors comprising Barrick, Newmont, Anglo Gold Ashanti, Goldfields, Newcrest, Goldcorp, Kinross, Freeport-McMoRan, Harmony Gold and Polyus
 Source: Companies, Bloomberg, Standard Chartered Research

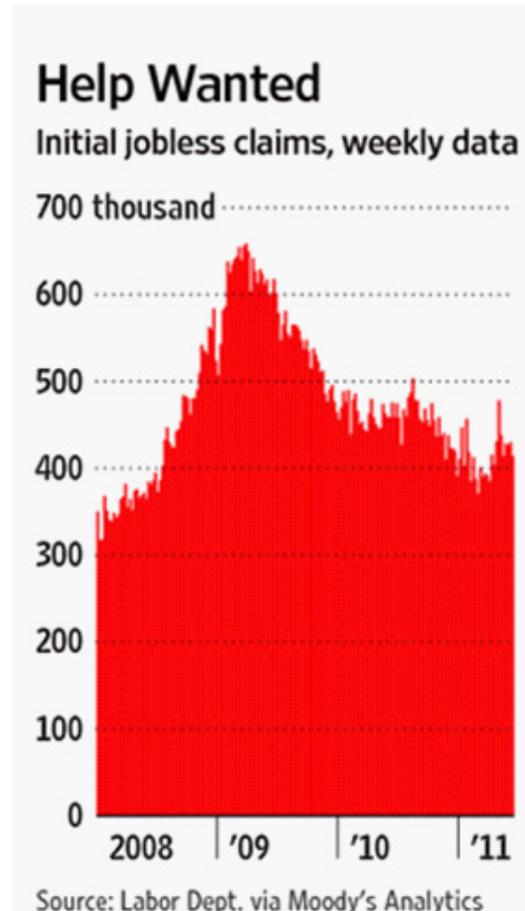


- In its semi-annual Financial Stability Review, the European Central Bank (ECB) warns: “Despite improving global and euro area economic and financial conditions, the overall outlook for financial stability has remained very challenging, with several pockets of risk still prevalent in the euro zone. The risk of adverse contagion from the bloc’s sovereign debt crisis and its interplay with the financial sector arguably remains the most pressing concern. European-level efforts to contain the debt crisis have not been sufficient and European crisis management has been fraught with some detrimental shortcomings. Funding risks also remain an Achilles heel for many banks, particularly those in fiscally stressed countries, where about 30% of bank debt will have to be refinanced in 2011 and 2012. Other key risks include potential losses in real estate and emerging market asset bubbles; as well as an unexpected surge in long term interest rates.”
- According to the latest Gallup Poll, Americans’ confidence in the U.S. economy declined to an average reading of minus 35 in the week ending June 12th. – a drop of nine percentage points from May 30th. and six points lower than in the same week a year ago. Domestic economic confidence is now approaching a 2011 weekly low.
- The Certified General Accountants (CGA) Association of Canada reports Canadian household debt reached a record \$1.5 trillion (CAD) at the end of the first quarter, meaning that on the average, a two-child household owes an estimated \$176,461 (CAD), including mortgage costs. Rick Lefebvre, CGA Canada’s vice president of research and standards commented: “The financial situation of certain groups of Canadian households is much worse than average and continues to deteriorate.”
- According to Case Shiller data, U.S. house prices have declined by 33% since the real estate market began its collapse in 2006 – greater than the 31% decline that began in the late 1920s – culminating during the Great Depression of the 1930s

THURSDAY, JUNE 16TH

- The Federal Reserve Bank of Philadelphia’s manufacturing index declined to a reading of minus 7.7 in June from a level of minus 3.9 in May. Readings below zero signal contraction in the sector.

- Capital One Financial Corp. agrees to purchase ING Direct – the online unit of Dutch banking giant ING Groep – in a transaction valued at \$9 billion (U.S.). Capital One Chairman and CEO Richard Fairbank commented: “The acquisition of ING Direct is a game-changing transaction that delivers attractive economic synergies immediately and compelling long-term strategic value.”
- The Reserve Bank of India raises its repurchase rate to 7.5% from 7.25% citing: “Leading indicators suggest (economic) growth (has) moderated in advanced and emerging countries and uncertainty about the resolution of Europe’s sovereign debt crisis has increased. While the Reserve Bank needs to continue with its anti-inflationary stance, the extent of policy action needs to balance the adverse movements in (the) inflation (rate) with recent global developments and their likely impact on the domestic (economic) growth trajectory.”
- Ireland’s Finance Minister Michael Noonan reveals details of the bond ‘haircut plan’ which will impose 80% - 90% losses totaling 3.5 billion pounds, on bondholders of Anglo Irish Bank and Irish Nationwide Building Society, now both owned by the Irish government. Eamon Gilmore, Ireland’s Deputy Prime Minister, confirmed: “While the government cannot act unilaterally, to force the bondholders to take losses, the government will discuss the plan with the European Central Bank (ECB).” For its part, the ECB believes forcing losses would trigger a ‘credit event’ – a default – that would inflict grave wounds on the banks with heavy exposure to Greek debt and unleash a second European banking crisis, in turn forcing another round of emergency bank rescues.
- In a new Wall Street Journal/NBC poll, 30% of those Americans questioned, expect the U.S. economy to deteriorate over the next 12 months, reflecting the cumulative effect of high gasoline prices, an continuingly depressed housing market and an uneven recovery in the high unemployment rate
- The Office for National Statistics reports U.K. retail sales declined by 1.4% in May, citing lower food sales was primarily behind the decline; following the extra holiday for the royal wedding which contributed to an increase in retail sales in April
- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 16,000 to a seasonally adjusted 414,000 in the week ended June 11th. Separately, the Commerce Department reports new home construction rose by 3.5% in May to a seasonally adjusted annual rate of 560,000 units.



- Moody’s Investors Service places France’s biggest three banks – BNP Paribas, Societe Generale and Credit Agricole (CASA) – on credit watch for possible rating downgrades, citing the banks’ high balance sheet exposure to Greek bonds: “Today’s actions reflect Moody’s concerns about these banks’ exposure to the Greek economy, either through direct holdings of government bonds or credit extended to the Greek private sector or through subsidiaries operating in Greece, a key factor for CASA and SocGen due to their local Greek banks.”

FRIDAY, JUNE 17TH

- Statistics Canada reports the nation’s wholesale sales declined by 0.1% in April to \$46.8 billion (CAD), having remained relatively flat year to date
- Greece’s Prime Minister George Papandreou replaces George Papaconstantinou as Finance Minister with Evangelos Venizelos, a prominent Socialist who challenged Mr. Papandreou for the party leadership four years ago

- The New York-based Conference Board reports its index of U.S. leading economic indicators rose by 0.8% in May, following a revised decline of 0.4% in April. Separately, the Thomson Reuters/University of Michigan preliminary index of consumer sentiment declined to a reading of 71.8 in June from a level of 74.3 in May
- In a speech to investors at the annual St. Petersburg International Economic Forum, Russian President Dmitry Medvedev condemns the government's overbearing presence in the economy and the centralization of power at the Kremlin. President Medvedev expounded: "This economic model is dangerous for the country's future. The proposition that the government is always right is manifested in corruption of benefits to 'preferred' companies. My choice is different. The Russian economy ought to be dominated by private businesses and private investors. The government must protect the choice of property of those who willingly risk their money and reputation. Russia must begin to attack the problem immediately to avoid the point of no return from the (economic) models that are moving the country backwards. Corruption, hostility to investment, excessive government role in the economy and the excessive centralization of power are the taxes on the future that we must and will discard."
- California state parks are in a downward spiral resulting from budget cuts that have left many only partially open and in decrepit condition, amid plans to close 70 parks indefinitely in 2012. In May, the California legislature decided to cut an additional \$22 million (U.S.) from the state Department of Parks and Recreation, to help close a State budget deficit of \$9.6 billion (U.S.). Overall, funding for California state parks has declined by 43% since fiscal 2006, to \$99 million (U.S.) planned for fiscal 2012.
- Moody's Investors Service places Italy's sovereign debt credit rating of 'Aa2' on credit watch, citing tepid economic growth and a tenuous government fiscal-consolidation plan. In an interview with Dow Jones Newswires, Alexander Kockerbeck, a Moody's analyst based in Frankfurt commented: "Italy's credit rating is being jeopardized by an economic environment in which investors are rapidly losing patience with highly indebted countries with weak GDP growth prospects. While Moody's concentrates solely on Italy's fundamentals – with an emphasis on its fiscal plan – the coexistence of some of the weaknesses of the Italian economy, together with the uncertainty in market sentiment due to the euro zone debt crisis ... creates further risks that we need to review."

CLOSING LEVELS FOR FRIDAY, JUNE 17TH. WEEKLY CHANGE

Dow Jones Industrial Average	12,004.36	+ 52.45 points
Spot Gold Bullion (August)	\$1,539.10 (U.S.)	+ \$9.90 per oz.
S&P / TSX Composite	12,789.95	– 294.05 points
10-year U.S. Treasury Yield	2.94%	– 3 basis points
Canadian Dollar	102.02 cents (U.S.)	– 0.02 cent
U.S. Dollar Index Future (Spot Price)	74.983 cents	+ 0.119 cent
WTI Crude Oil (August)	\$93.01 (U.S.)	– \$6.28 per barrel

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