

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



Monday, June 27th

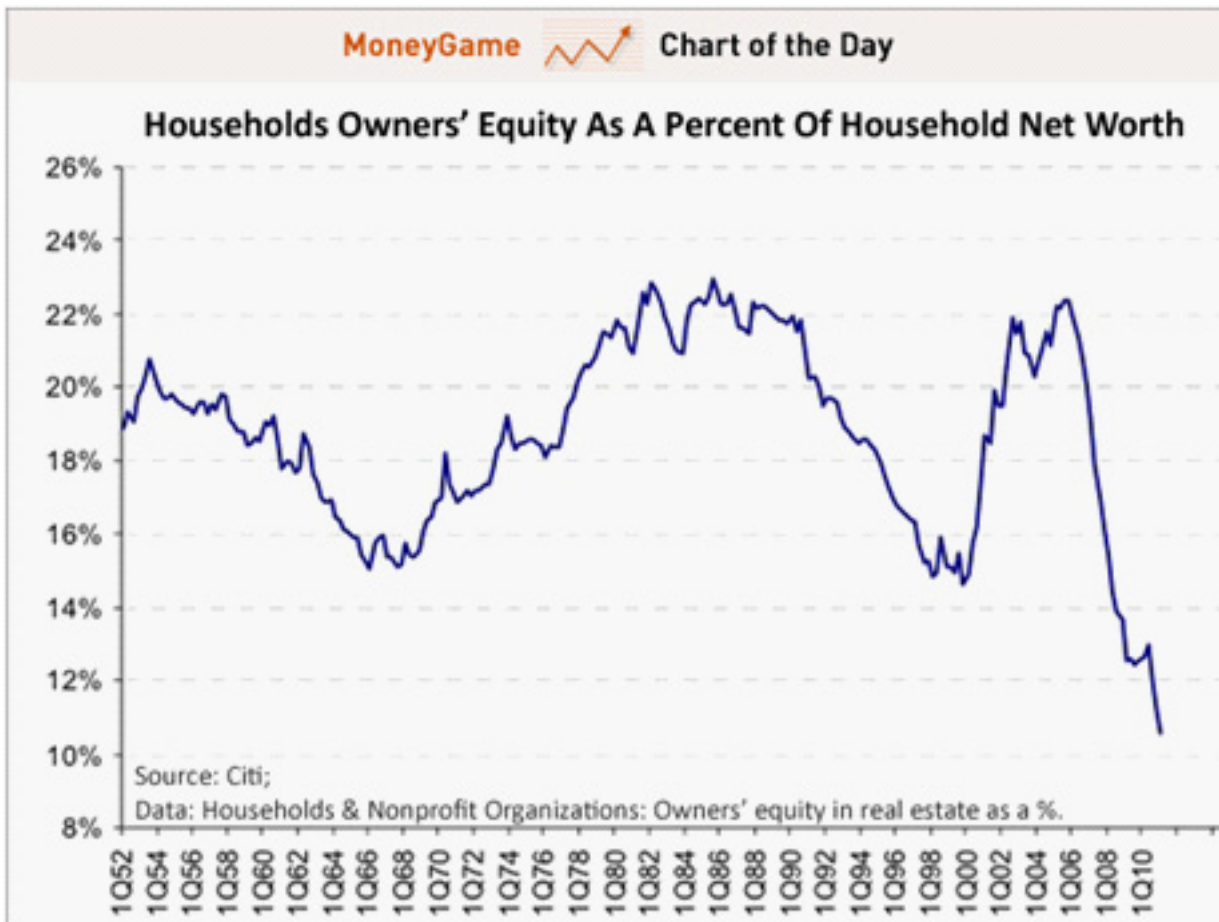
The Commerce Department reports U.S. consumer spending, adjusted for inflation, declined slightly by 0.1% in May, for the second consecutive month

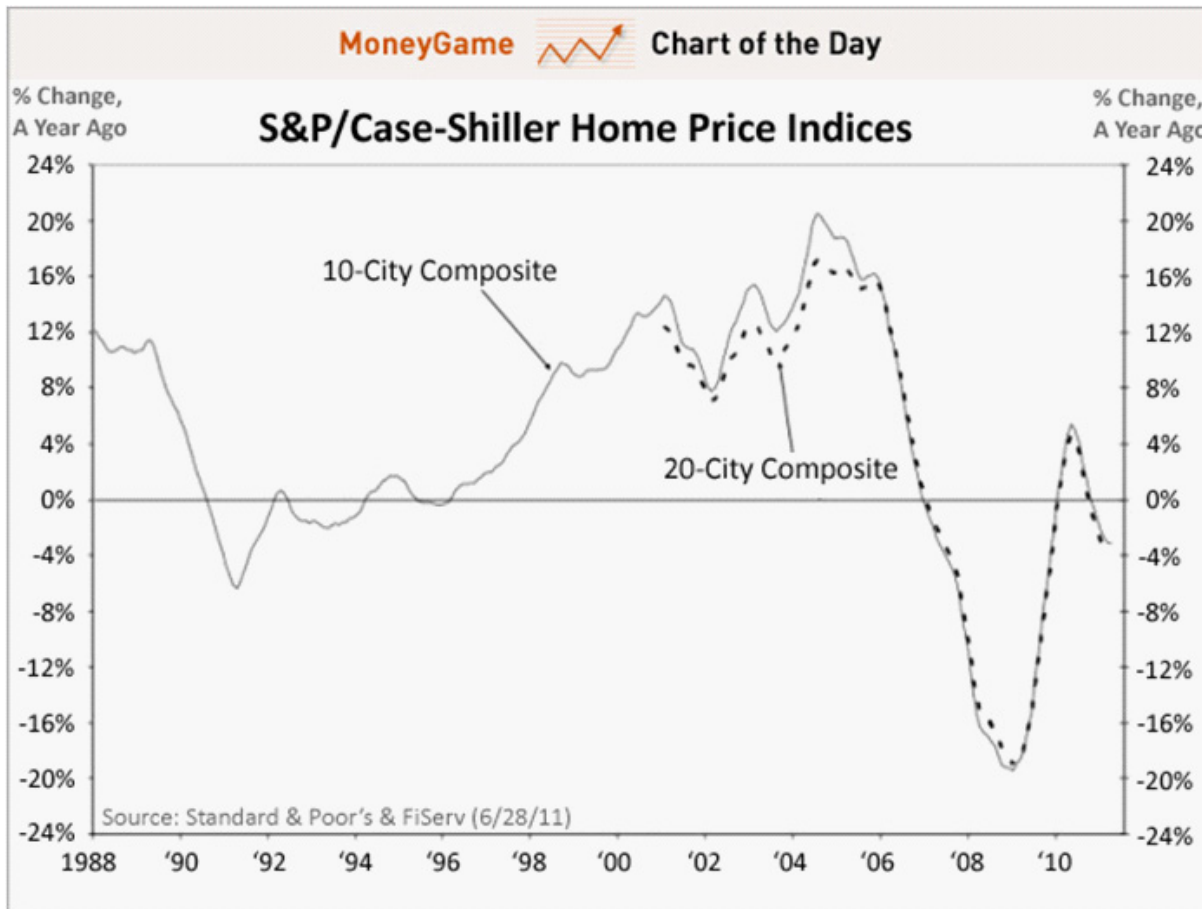
MONDAY, JUNE 27TH

- Gary Foster, a former Citigroup Inc. Vice President, who worked in the bank's treasury finance department, is charged with a bank fraud of embezzling more than \$19 million (U.S.) from the Bank. U.S. Attorney Loretta Lynch cited: "The defendant allegedly used his knowledge of bank operations to commit the ultimate inside job."
- A federal jury finds former Illinois Governor Rod Blagojevich guilty on 17 counts of corruption, including trying to sell the U.S. Senate seat vacated by President Barack Obama. U.S. Attorney Patrick Fitzgerald termed the verdict "a bittersweet moment because the jury sent a loud and clear message that former Gov. Blagojevich committed very serious crimes." The verdict follows the conviction 5 years ago of former Illinois Gov. George Ryan, Mr. Blagojevich's predecessor, who is currently serving a 6 ½ year jail sentence, also for corruption. Mr. Fitzgerald stated that jury had sent a message that corruption wouldn't be tolerated in Illinois, but obviously, "Gov. Blagojevich did not get that message." Mr. Blagojevich, 54 years old, faces a maximum sentence of 300 years in prison on the 17 counts.
- The State of California is preparing for a round of deep cuts in public spending, as the State addresses a \$9.6 billion (U.S.) budget deficit with a new financial plan that does not contain any tax increases. The new budget, which includes \$650 million (U.S.) in support for the State's universities, was agreed to by California Governor Jerry Brown and the Democrats who control the State legislature, and struck just days from the start of the State's new fiscal year on July 1st.
- The Los Angeles Dodgers file for Chapter 11 bankruptcy in a bid to prevent Major League Baseball from taking control of the financially-troubled franchise. The team has secured \$150 million (U.S.) in debt financing which will be available to fund continuing team operations. According to Forbes Magazine, the Dodgers franchise is the fourth most valuable in baseball, worth an estimated \$727 million (U.S.). However, Frank McCourt, the team's owner and his wife Jamie of 30 years have taken out in excess of \$100 million (U.S.) in loans against the team, amid acrimonious divorce proceedings.
- The White House announces it is seeking to raise \$600 billion (U.S.) in revenue through new taxes and the elimination of corporate subsidies as part of an agreement to reduce the federal deficit and raise the statutory debt ceiling from the current \$14.3 trillion (U.S.) limit. President Barack Obama is trying to ensure that any spending cuts agreed upon are offset by tax increases – to which Republicans are opposed. White House spokesman Jay Carney echoed the calls of many Democratic legislators, stating any agreement must include tax hikes, or the elimination of subsidies since "it's the only way to get it done." This sets the stage for another showdown with Republicans over the next month.

- In an op-ed published on the Capitol Hill website, the co-chairmen of President Obama’s bipartisan fiscal reform commission are calling upon lawmakers and the White House to raise the nation’s statutory debt limit in exchange for \$2 trillion (U.S.) in deficit savings over the next decade. Former Senator Alan Simpson (R-Wyo.) and former Clinton administration White House chief of staff Erskine Bowles recommend that Congress and the Obama administration agree on a “down payment” of at least \$2 trillion (U.S.) on a broader \$4 trillion (U.S.) deficit reduction plan to begin planning to reduce America’s ballooning national debt. Simpson and Bowles stated: “What this country needs – and what the American people deserve – is a \$4 trillion (U.S.) gimmick-free fiscal consolidation package that stabilizes and then reduces our debt as a share of the economy ... For this to work though, the down payment must be large – in the vicinity of \$2 trillion (U.S.) – and it must at least, begin to address entitlement (program) growth.” See also, Winter Warning, June 29, 2011 – The International Debt Crisis – The United States of America Risks Financial Armageddon -- Conclusion
- The International Monetary Fund (IMF) selects France’s Finance Minister, Christine Lagarde, for the post of Managing Director, replacing Dominique Strauss-Kahn. In a statement, Ms. Lagarde observed: “The IMF has served its 187 member countries well during the global economic and financial crisis, transforming itself in many positive ways. I will make it my overriding goal that our institution continues to serve its entire membership with the same focus and the same spirit. The IMF must be relevant, responsive, effective and legitimate to achieve stronger and sustainable (economic) growth, macroeconomic stability and a better future for all.”
- The S&P/Case-Shiller Index of property values in 20 U.S. cities declined by 4% in April on a year-over-year basis, the biggest decline since November 2009

TUESDAY, JUNE 28TH





- In a Financial Times op-ed entitled Spectre of Stagnating Incomes Stalks Globe, reporter Chris Giles opines: “Nearly three years after the start of the economic crisis, a new spectre is haunting the world’s most advanced economies: the prospect that the majority of their citizens will face years of stagnant wages. In the post-World War II years, there was a belief in developed economies that each generation could expect to have materially better living standards than their parents. Yet the outlook for income growth has rarely looked worse than it does today. For some middle-income groups, the idea of stationary or declining incomes is not new ... Median male U.S. earnings have not risen since 1975. Average real Japanese household incomes after taxation, fell in the decade to the mid-2000s and those in Germany have been falling in the past 10 years.”
- The Wall Street Journal (WSJ) reports the small town of Alto, Texas places its entire police force – one police chief and four police officers – on a 6-month furlough in an effort to save money. In the meantime, the Cherokee County Sheriff’s Department will assume law enforcement duties for the town of 1,200. Alto

residents fear that crime will rise in the absence of a local police force. The town’s crime rate is already above the state average: there were 66 crimes in Alto last year, compared to 51 the previous year. Alto Mayor Monty Collins remarked to the WSJ: “Everybody’s talking about bolting their doors and buying a gun.” Social unrest is on the rise across America.

**WEDNESDAY JUNE 29TH**

- In its annual report on U.S. economic policy, the International Monetary Fund (IMF) cites “unfavourable fiscal outcomes” will ensue if the U.S. Congress fails to act swiftly to raise the statutory debt limit: “These could take the form of a sudden increase in interest rates (Treasury bond yields) and/or a sovereign credit rating downgrade. These risks would also have significant global repercussions, given the central role of U.S. Treasuries in world financial markets.” See also, Winter Warning, May 10/11 – The Unraveling of Debt – What Happens if the U.S. Statutory Debt Limit Isn’t Raised?

- By a small margin of 17 votes, Greece's parliament approves a 78 billion euro (\$122.2 billion U.S.) package of additional austerity measures and asset sales averting certain default, while police clashed with protestors in central Athens. Greek Prime Minister George Papandreou had warned lawmakers before the vote that the country would run out of money if the measures weren't approved: "We have to do everything necessary to avoid the country from collapsing." At Long Wave Analytics, while we don't expect that a Greek default is imminent, we believe that a default is inevitable. See also, Winter Warning, June 29/11 – The International Debt Crisis – Ensnared by the Demon of Debt.
  - The National Association of Realtors reports the index of U.S. pending home sales rose by 8.2% in May, following a downwardly revised drop of 11% in April
  - Zurich-based Credit Suisse Group announces 600 investment banking job layoffs, centered mostly in America, as it has incurred weak trading revenues in the 2nd. quarter
  - The Bank of Ireland withdraws an offer for 75 million pounds of bonds issued by its Bristol and West subsidiary because of "procedural difficulties" experienced by some bondholders – who include many pensioners – and who were dismayed by the 80% write down ("haircut") being forced upon them. Albert Kempster, a 73-year old farmer, had mounted a legal challenge against the bank branding the terms of the offer "unfair." The court hearing was postponed when the bank withdrew the offer. Quite right, Albert, quite right.
  - During a news conference in the East Room of the White House, U.S. President Obama condemns the approach that House and Senate Republicans have adopted in the 11th. hour of the negotiations surrounding the increase in the nation's statutory debt limit: "They're in one week and out the next ... Call me naïve, but my expectation is leaders are going to lead ... The Republicans say that they want to reduce the deficit. Every single observer who's not an elected official, or politician says we can't reduce our deficit in the scale and scope we need to, without having a balanced approach that looks at everything. Democrats have to accept some painful spending cuts that hurt some of our constituencies that we may not like, and we've shown a willingness to do that for the greater good." At Long Wave Analytics, we have repeatedly argued that the U.S. deficit cannot be reduced by spending cuts alone – higher tax revenues are also necessary.
  - In a Reuters interview, John Chambers, Standard & Poors (S&P) managing director warns: "If the United States misses a payment on (August 2nd.) due to a debt ceiling-related default, U.S. Treasury bills maturing on August 4th. would be downgraded to a "selective default D" credit rating, because they don't have a grace period."
- THURSDAY, JUNE 30TH
- The Institute for Supply Management-Chicago business activity index rose to a reading of 61.1 in June following a level of 56.6 in May
  - Statistics Canada reports the country's gross domestic product (GDP) was flat in April following an expansion of 0.3% in March, as both the goods producing and services sectors were unchanged
  - The Labor Department reports U.S. initial claims for state unemployment benefits declined by 1,000 to a seasonally adjusted 428,000 in the week ended June 25th. while continuing claims fell by 12,000 to about 3.7 million in the week ended June 18th.
  - Several hundred thousand British teachers and public service workers stage a one-day strike to protest the government's austerity plans; which include reductions to public sector pensions, cutting civil service jobs and benefits as well as raising the retirement age from 65 to 66
  - Antonio Horta-Osorio, Chief executive officer of Lloyds Banking Group PLC, announces a new corporate strategy including 15,000 job layoffs and a halving of its international presence to 15 countries from 30: "The planned measures will make shareholder returns strong, stable and sustainable; help it serve customers better and allow it to return to profitability, so that the U.K. government can sell it 41% stake."



Chicago Board Options Exchange (CBOE) Yield Chart for 10-year U.S. Treasurys

#### FRIDAY, JULY 1ST CANADA DAY

- In an interview with the Epoch Times, Constantine Glezokas, a Greek-born professor emeritus at California State University Long Beach, believes Greece's government will be unable to impose all the austerity measures it just passed: "Greeks don't pay taxes. For 40 years they have been used to this system. The tax system and the employees of the Greek IRS – they get more income from bribes rather than from their salary. In my view, it will take at least two generations for Greeks to learn to pay taxes. They have had free education, free health care and free transportation all these years. When the European Union (EU) granted Greece membership (in 2001), the EU started giving Greece loan packages for upgrading the economy; so the government got hundreds of billions (of euros), but they spent everything on consumption and subsidies, not on creating infrastructure or investments." See also, Winter Warning, June 29, 2011 – The International Debt Crisis – Ensnared by the Demon of Debt – Conclusion.
- General Motors and Ford Motor report U.S. auto sales rose by 10% in June, citing small car sales are being lost due to supply constraints affecting all automakers
- The Tempe, Arizona-based Institute of Supply Management's factory index rose to a reading of 55.3 in June from a level of 53.5 in May
- New York State Attorney General Eric Schneiderman issues subpoenas to and seeks new depositions from, former Bank of America (B of A) executives President and CEO Ken Lewis and Chief Financial Officer Joseph Price. Former Attorney General Andrew Cuomo, now the Governor of New York State, had previously accused them of deliberately misleading shareholders about burgeoning losses at Merrill Lynch before the securities firm was acquired by the B of A in 2008. The Securities and Exchange Commission (SEC) had accused B of A of similar disclosure failings, which the Bank settled by paying \$150 million (U.S.) fine without admitting, or denying the allegations. B of A and Messrs. Lewis and Price have denied the Merrill related

allegations in previous court filings. In one response, Mr. Lewis denounced the case as “an ill-founded attempt to lay blame where it does not belong.” See also, Winter Warning, February 2, 2009 – The Clash of Cultures.



CLOSING LEVELS FOR JUNE 30TH. AND JULY 1ST.		WEEKLY CHANGE
Dow Jones Industrial Average	12,582.77	+ 648.19 points
Spot Gold Bullion (August)	\$1,482.60 (U.S.)	– \$18.30 per oz.
S&P / TSX Composite	13,300.87	+ 391.98 points
10-year U.S. Treasury Yield	3.18%	+ 32 basis points
Canadian Dollar	103.68 cents (U.S.)	+ 2.36 cents
U.S. Dollar Index Future (Spot Price)	74.194 cents	– 1.671 cent
WTI Crude Oil (August)	\$94.94 (U.S.)	+ \$3.78 per barrel

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