

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



Monday, July 4th

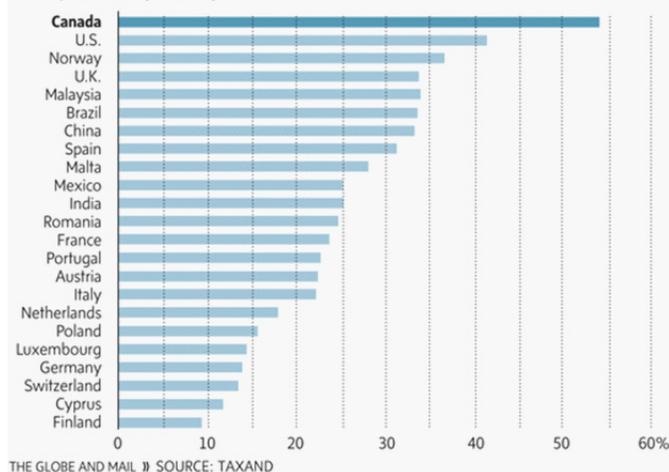
The Royal Bank of Canada, Toronto-Dominion Bank and Laurentian Bank all raise their 5-year residential fixed mortgage rate by 15 basis points to 5.54%, effective immediately

MONDAY, JULY 4TH

U.S. Independence Day Holiday

- Oxford Properties Group Inc. announces plans to construct a 35-storey office tower in downtown Vancouver comprising 270,000 square feet at 1021 Hastings Street, the current site of the University and Quadra Clubs. According to CB Richard Ellis Group, downtown Vancouver has the lowest vacancy rate of any major Canadian city at 4.3%.

TAXES ON COMMERCIAL PROPERTY RENTS
2010, per cent, by country



- Statistics Canada reports its Industrial Product Price index declined slightly by 0.2% in May, led mainly by lower prices for primary metal products; while its Raw Materials Price Index fell by 5.2% on a year-over-year basis, driven mainly by mineral fuels

- Ratings agency Standard and Poors, in response to a French proposal to have banks allow Greece to extend the maturity dates of various bond issues outstanding, reiterates its conclusion that “the proposal would represent a default because bondholders would have to wait longer to be repaid and thereby, Greek bonds would decline in value.” Daniel Gros, Director for the Center of European Policy Studies in Brussels commented: “Rating agencies are saying: ‘We don’t think it’s voluntary (the bond rollovers); it’s just a way to hide a default’ – which it is.”
- Financial information company Markit, reports Canada’s Manufacturing Purchasing Managers’ Index, which measures the sector’s output and new order growth, declined to a reading of 52.8 in June, following a level of 54.8 in May, citing continuing supply chain disruptions from Japan and moderating global economic growth trends

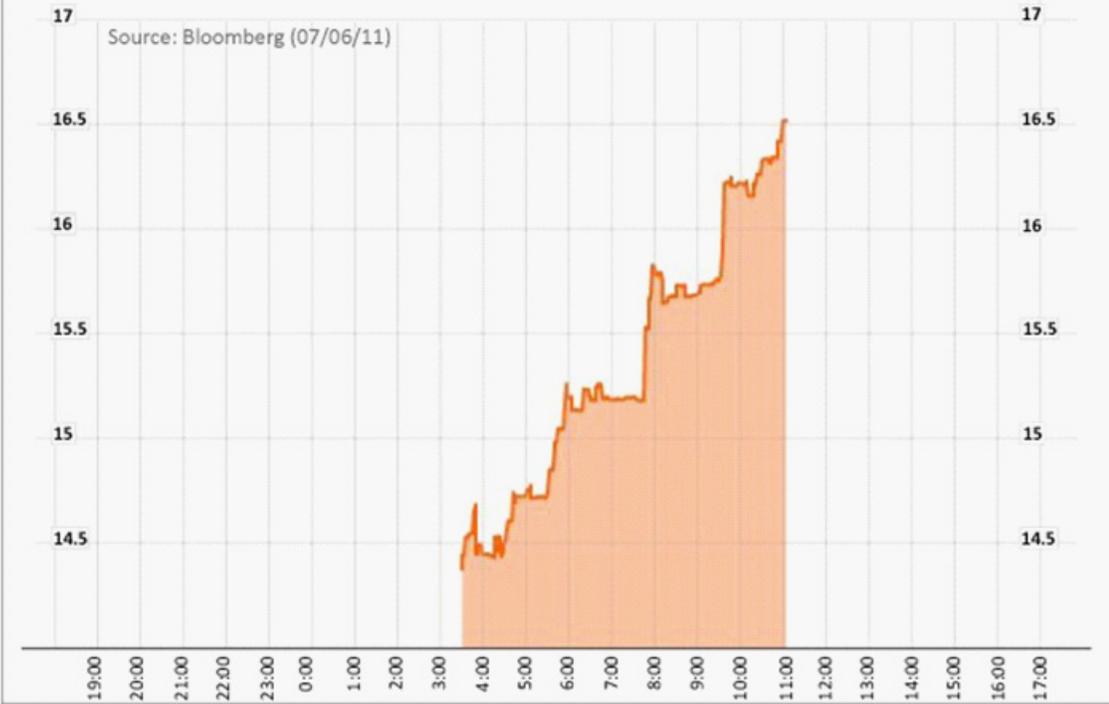
TUESDAY, JULY 5TH

- The Commerce Department reports U.S. factory orders rose by 0.8% in May, following an upwardly revised decline of 0.9% in April, citing signs of recovery from parts shortages linked to the March earthquake and tsunami in Japan. Separately, orders for durable goods (meant to last at least 3 years) increased by 2.1%, driven by a 0.9% rise in unfilled orders for computers, machinery and electrical equipment.

MoneyGame  Chart of the Day

Portugal's Short-Term Yields -- July 6, 2011

Source: Bloomberg (07/06/11)



Payrolls growth

In thousands, seasonally adjusted



WEDNESDAY, JULY 6TH

- Bombardier Inc. announces 1,500 job layoffs – 50% of its work force – at its Litchurch Lane train plant in Derby, England, in the wake of Germany's Siemens being chosen as the preferred bidder for the UK's Thameslink program. Bombardier also lost to Japan's Hitachi in the bidding to replace the UK's ageing InterCity 125 fleet.
- Moody's Investors Service warns: "China's local government debt may be 3.5 trillion yuan (\$540 billion U.S.) larger than auditors have estimated. Unless China has a clear master plan to fix the problem, the credit outlook for Chinese banks could be negative."
- The Markit Eurozone Services Purchasing Managers Index (PMI) declined to a reading of 53.7 in June, following a level of 56.0 in May, driven mainly by France and Germany
- Moody's Investors Service downgrades Portugal's sovereign debt credit rating to Baa2 with a negative outlook – basically junk status – citing: "It is unlikely Portugal will be able to access private markets for financing in 2013 if Greece's second bailout (package) – currently under negotiation – demands that private bond investors extend the maturity dates (roll over) Greek debt they (already) hold. This development is significant, not only because it increases the economic risks facing current (bond) investors, but also, because it may discourage new private sector lending in the future and reduce the likelihood that Portugal will soon be able to regain (bond) market access on sustainable terms. If Portugal can't access (bond) investors, the country will need a second round of assistance, just like Greece."
- In a Financial Times article entitled The Greek Rollover Pact Is Like a Toxic CDO (Collateralized Debt Obligation), reporter Wolfgang Munchau explains the complexity of the next Greek bailout package: "If you own a Greek bond that matures by June 2014, you retain 30% of the redemption as cash, and roll over 70% into a 30-year Greek government bond. The Greeks must pay an annual coupon of between 5.5% and 8%, dependent upon future economic growth (GDP). Of the money received, Greece will lend on 30% to a special purpose vehicle (SPV), another well-known construction from the subprime mortgage crisis. The SPV invests into 'AAA' rated government or agency bonds and issues a 30-year zero coupon bond. The purpose of this is to guarantee the principal of the 30-year Greek government bond." While this amounts to a private sector bailout, Greece will not be able to afford the 5.5 to 8% interest payments.
- The Institute for Supply Management reports its U.S. services index declined to a reading of 53.3 in June from a level of 54.6 in May, citing the new orders component fell by 3.2 points and the backlog of orders sector dropped by 6.5 points
- The Bank of China raises its benchmark one-year lending rate by 25 basis points to 6.56% and its one-year deposit rate to 3.5%, in an effort to counter a stubbornly high inflation rate
- Statistics Canada reports the value of the country's building permits rose by 20.9% to \$6.4 billion (CAD) in May, following a 21.5% decline in April, citing higher construction intentions, particularly for commercial buildings in Quebec and Alberta; as well as multi-family dwellings in Ontario
- The economy ministry reports German manufacturing orders rose by 1.8% in May, following an upwardly revised 2.9% gain in April, driven by an 11.3% increase in domestic orders

THURSDAY, JULY 7TH

- Automatic Data Processing Inc. (ADP) reports private sector payrolls increased by 157,000 in June
- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 14,000 to a seasonally adjusted 418,000 in the week ended July 2nd. while continuing claims fell by 43,000 to 3.68 million in the week ended June 25th. Those people who have exhausted their traditional benefits but are receiving emergency or extended benefits under federal programs declined by about 88,000 to 3.85 million in the week ended June 18th.
- The European Central Bank (ECB) raises its benchmark lending rate 25 basis points to 1.5%. ECB President Jean-Claude Trichet commented: "We will continue to monitor very closely all developments with respect to upside risks to price stability."

FRIDAY, JULY 8TH

- The Labor Department reports U.S. non-farm payrolls increased by a seasonally adjusted 18,000 in June, while job gains in May were downwardly revised to 25,000 from the initial estimate of 54,000. The unemployment rate edged higher to 9.2% from 9.1%.

Jobless claims

4-week moving average



Weak jobs growth

Seasonally adjusted, in thousands



- Statistics Canada reports the country's economy added 28,400 jobs in June, led by growth in the transportation sector and in part-time employment. The unemployment rate remained unchanged at 7.4%
- The British Columbia Securities Commission (BCSC) discloses the arrest of Ronald James Conn and his wife Sze Man "Ella" Conn, with assistance from the Vancouver Police Department. Mr. Conn faces 15 charges under the Criminal Code and a further 119 counts under the B.C. Securities Act. Mrs. Conn is charged with 5 counts under the Securities Act and 1 count under the Criminal Code. The charges include fraud, unlawful trading and breach of previously imposed bail conditions. In its press release, the BCSC stated it was the third arrest of Mr. Conn and the second arrest of Mrs. Conn related to illegal trading of securities. The Conns are accused of raising over \$1 million (CAD) from 21 investors between July, 2008 and September, 2010. Given their persistent behavioral pattern, the Conns would appear to have plied their trade as veritable artists. Sadly, the 21 investors must feel truly "conned."
- In a recent report, China's National Audit Office estimated China's total local government debt to be 10.7 trillion yuan (\$1.65 trillion U.S.) at the end of 2010; with 8.5 trillion yuan representing bank loans. Moody's Investors Service warns: "China's audit office may have understated banks' loans to local governments by \$500 billion (U.S.) because the audit agency didn't feel governments should be responsible for those particular loans. (Indeed,) those loans are most likely poorly documented and may pose the greatest risk of delinquency." Yvonne Zhang, a senior Moody's analyst based in Beijing, estimates the delinquency ratio for those loans would be between 50 to 75%.
- The Federal Statistics Office reports German exports rose by a seasonally adjusted 4.3% in May, following a decline of 5.6% in April, citing an increase in both German factory orders and industrial production. Thilo Heidrich, an economist at Deutsche Postbank AG in Frankfurt, commented: "The upward (economic) trend is still intact. While the May figure is something of a rebound from a weak April, the German economy is in a very good state, due in large part to demand from Asia."
- The Federal Deposit Insurance Corp. (FDIC) seizes the assets of First Chicago Bank and Trust in Chicago, Illinois; Colorado Capital Bank in Castle Rock, Colorado and Signature Bank in Windsor, Colorado, raising the number of U.S. bank failures to 51 so far in 2011
- In a Financial Times article entitled 'Echo of Reagan could rouse bond vigilantes (professional traders)', New York-based reporter Michael Mackenzie asserts: "The famed 'bond vigilantes', who cracked the whip over rising government spending in the early-1990s, view the current sparring in Washington with a degree of cynicism. The debate over raising the (U.S.) debt ceiling has been a regular event over the years and eventually, the (Department of) the Treasury's credit line gets raised. That's why (U.S. Treasury) bond yields remain relatively low and are being dictated by the tide of incoming (economic) data, such as today's very poor (non-farm payroll) jobs report for June, rather than the debate about future (government) spending in Washington. But this time, one can argue that the debate is different and in 2011, raising the debt ceiling is not the main story. It's whether the long-term (U.S.) entitlement costs of Medicare and Social Security are realistically addressed. The Congressional Budget Office (CBO) recently estimated that by one scenario, debt held by

Coming Due

Years when debt owed by China's local government must be repayed.
In trillions of yuan



Total: 10.717 trillion yuan

Sources: China's National Audit Office; Moody's Investors Service

the public would exceed 100% of gross domestic product (GDP) by 2021, with that ratio surpassing its historical peak of 109% by 2023 and approaching 190% by 2035. A research report by Macroeconomic Advisors ... estimated this week that assuming the current (U.S.) fiscal policies remain in place, the yield on the 10-year (U.S.) Treasury note would reach nearly 9% by 2021. Notoriously late to downgrade subprime mortgage (securitized issues), the (U.S. credit) rating agencies are now taking an increasingly proactive approach. Standard & Poors (S&P) has warned that it will downgrade the U.S. credit rating (from 'AAA') to 'D', the lowest level, in the event that the (U.S.) debt ceiling is not raised and America misses a debt payment." See also, Winter Warning, June 29, 2011 – The International Debt Crisis

CLOSING LEVELS FOR FRIDAY, JULY 8TH.		WEEKLY CHANGE
Dow Jones Industrial Average	12,657.20	+ 74.73 points
Spot Gold Bullion (August)	\$1,541.60 (U.S.)	+ \$59.00 per oz.
S&P / TSX Composite	13,371.70	+ 70.83 points
10-Year U.S Treasury Yield	3.03%	– 15 basis points
Canadian Dollar	104.09 cents (U.S.)	+ 0.41 cent
U.S. Dollar Index Future (Spot Price)	75.28 cents	+ 1.086 cent
WTI Crude Oil (August)	\$96.20 (U.S.)	+ \$1.26 per barrel

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