

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



Monday, July 11th

Canada Mortgage and Housing Corp. (CMHC) reports the nation's housing starts increased to a seasonally adjusted annual rate of 197,400 units in June from an upwardly revised rate of 194,100 in May; citing a big rise in single and multiple starts in Ontario

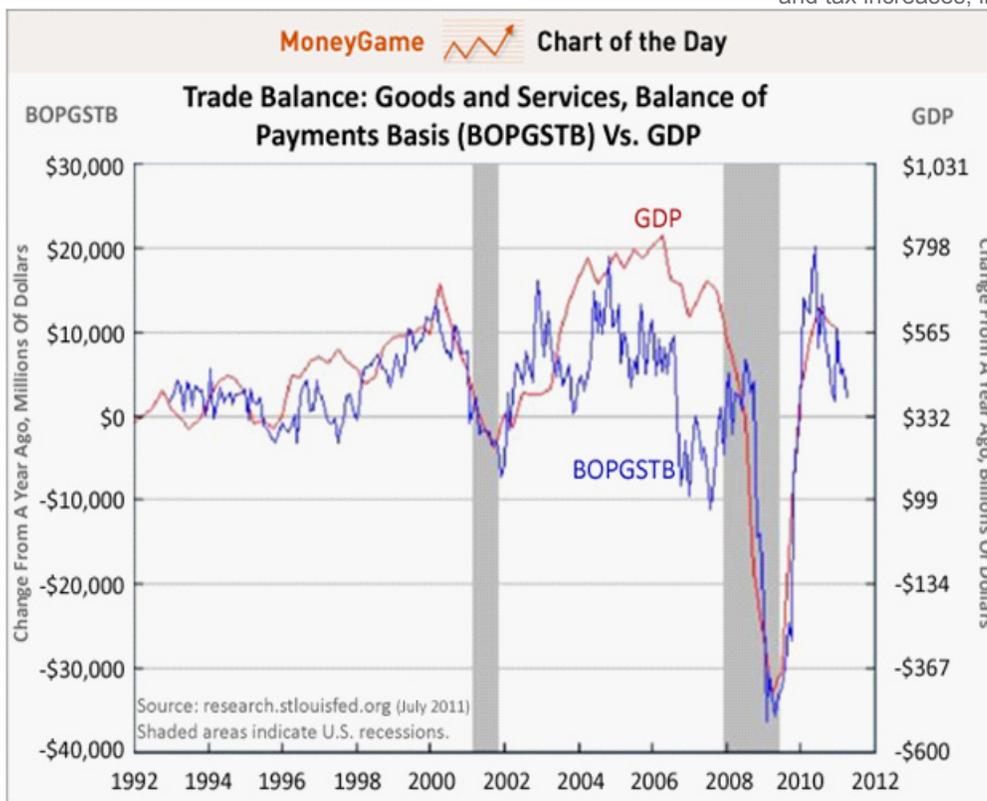
MONDAY, July 11TH

- At a White House press conference, U.S. President Barack Obama declares: "There will be no deal on raising the government's (statutory) debt limit if Republicans won't compromise. I don't see a deal if they don't budge from their 'my way or the highway' posture ... and I will not sign a 30-day, or a 60-day, or a 90-day extension." Since 1917, the U.S. statutory debt limit has been raised 102 times; including 8 times during the G.W. Bush administration and 3 times during the Obama administration. While Americans consider this debate to represent responsible government; at Long Wave Analytics, we consider all such debates to be farcical by nature, because the U.S. debt ceiling will inevitably be raised. Ergo, the U.S. statutory debt limit should be abolished. Separately, U.S. Treasury Secretary Timothy Geithner has warned: "Failure is not an option ... They should not walk away now. We need both sides to come together."
- According to the Bank of Canada's Business Outlook Survey through the April – June quarter: "Hiring intentions are becoming widespread across all regions and sectors, with 57% of respondents indicating they plan to add staff over the next 12 months, compared with only 4% who expect to cut their work force", citing those businesses in Western Canada which are benefitting from high commodity prices, as the most optimistic
- In a weekend National Post article entitled Money Gone Rogue, writer John Greenwood notes: "A growing number of Americans believe returning to the gold standard, or bringing gold coins back into circulation, is the only way to restore sanity to a fiscal system that is out of control. In Utah, a law went into effect in May making gold and silver coins legal tender and exempting the exchange of coins from income or sales tax liability. At least 15 U.S. states including Iowa, South Carolina and New Hampshire are considering bills (legislation) that would legalize gold as currency, or are lobbying the federal government to reform the Federal Reserve System, to consider alternative forms of currency ... The legacy of fiat (paper) money is manifest in the catastrophic problems facing the United States today, conservatives say. At least three prominent Republicans seeking nomination to run in the 2012 presidential election have advocated a return to gold, including Ron Paul, former New Mexico Governor Gary Johnson and former Kansas City Federal Reserve Bank Chairman Herman Cain. In June, Steve Forbes, CEO of Forbes Inc. issued a press release declaring his support for a gold-backed currency. "It's a very, very simple system," he said. "We cannot continue doing what we are doing. We have to make the change." Now the Tea Party has taken up the cry ... the public face of the Tea Party's gold standard campaign is Jeff Bell, policy director at American Principles in Action and a long-time political strategist.

On the podium in the town square of Ottumwa, Iowa, Mr. Bell presents himself as a venerable voice of experience, explaining to grass roots audiences how politicians and the wealthy have taken advantage of the monetary system to enrich themselves to the detriment of working people. After weeks on the road, he moves a little stiffly, but he approaches his subject with gusto. “Quantitative easing is just what they tell you when they mean printing money,” he declares, his eyes brightening as the crowd responds with scattered applause ... Many Americans are a little baffled by the subject of monetary policy, but as the depression grinds on and the price of gasoline and food surges higher, people are starting to get it. “People are losing their homes in this town because they can’t pay the mortgage,” says Gregg Cummings, a founder of the Iowa Tea Party who lives in Lamoni, a small Iowa farming community close to the border with Missouri. “Just walk up and down our main street and look at the stores, they’re either shut down, or they have a sign in the window saying they’re not open for business.” See also, Winter Warnings, October 19, 2009 – All That Glitters is Gold and May 30, 2011 – Fed Up With The Fed.

TUESDAY, JULY 12TH

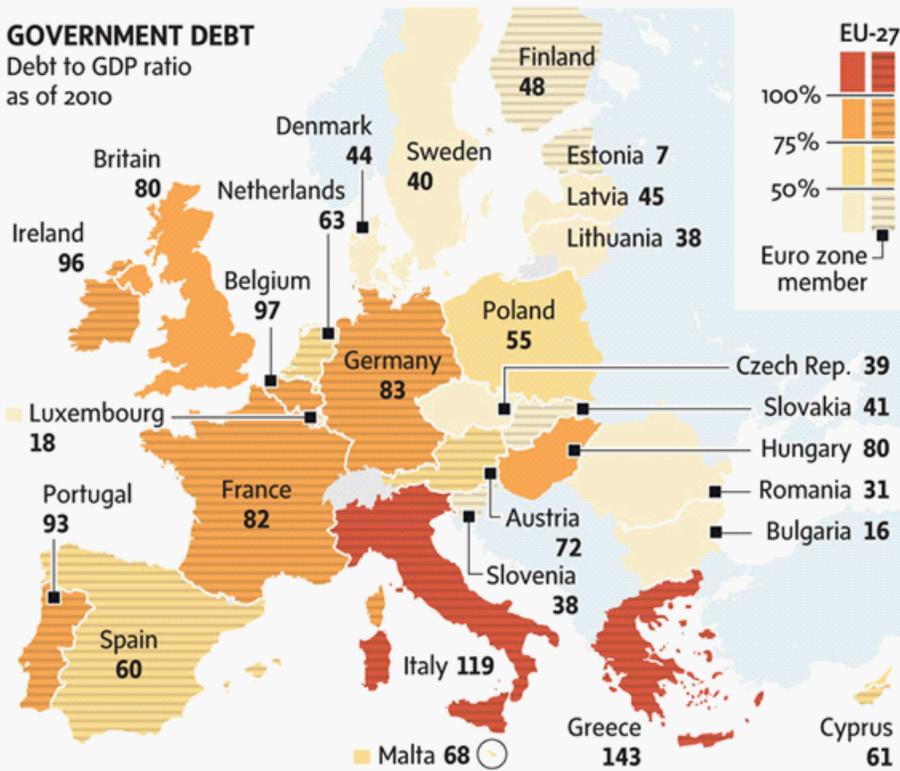
- The Commerce Department reports the U.S. trade deficit widened to \$50.2 billion (U.S.) in May from an upwardly revised \$43.7 billion (U.S.) in April, previously reported as \$43.6 billion (U.S.), citing a surge in the cost of imported crude oil to an average price of \$108.70 (U.S.) a barrel, the most since August, 2008
- Moody’s Investors Service downgrades Ireland’s sovereign debt credit rating to ‘Ba1’ from ‘Baa3’ with a negative outlook (junk status), citing “the probability that Ireland will need additional official financing and for bondholders to share in losses (‘haircuts’), before it can return to the private (bond) market to borrow.”
- Falling prices for outstanding Italian sovereign debt issues present the European Union (EU) with the prospect of a potential bailout of its third largest economy which could, not only be unaffordable, but also, result in the destruction of the euro itself. Accordingly, Giulio Tremonti, Italy’s embattled finance minister, announced he would “send the markets a strong signal,” promising that measures to reduce the budget deficit would be “armour-plated” and approved by parliament within a week. This means that the Italian cabinet must accelerate its recently approved 47 billion euro austerity package of spending reductions and tax increases, in an attempt to restore market confidence.



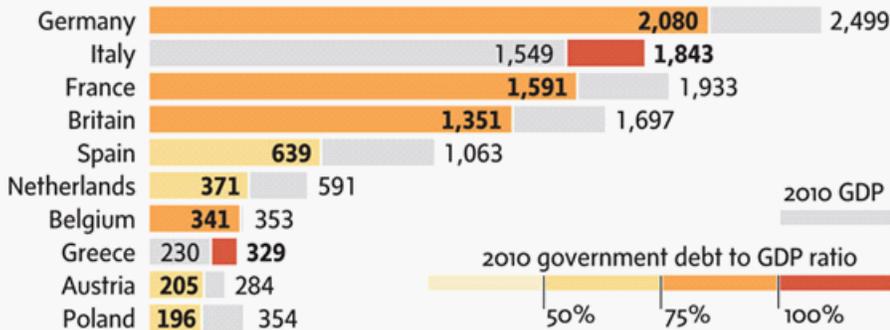
EUROPEAN DEBT CRISIS

GOVERNMENT DEBT

Debt to GDP ratio as of 2010

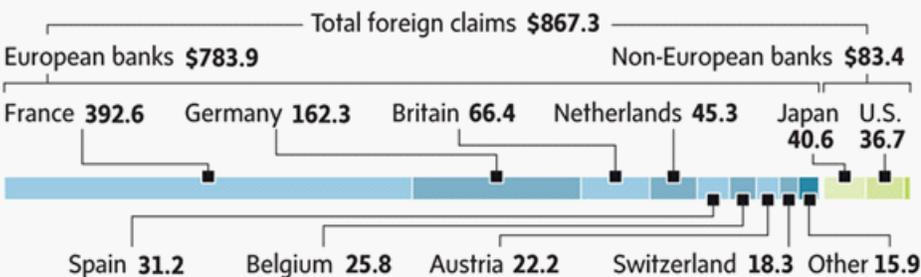


TEN LARGEST EU GOVERNMENT DEBTS (in billions of euros)



EXPOSURE TO ITALY'S DEBT (in billions of dollars)

Ten largest foreign claims as of end-December 2010



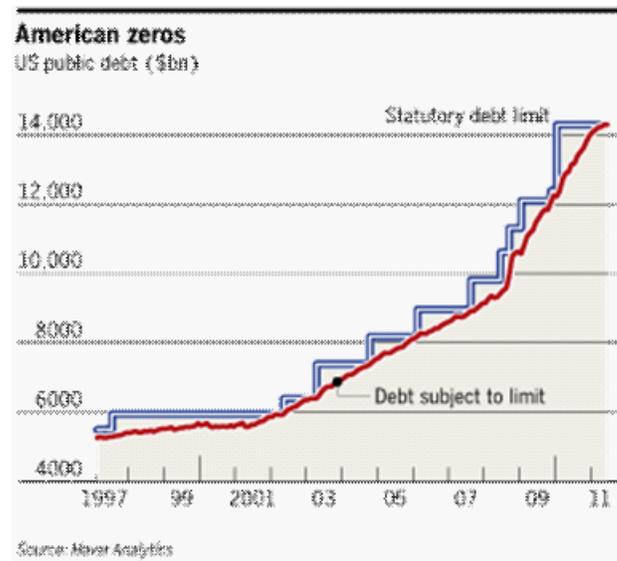
- Statistics Canada (Statscan) reports the nation's trade deficit narrowed to \$814 million (CAD) in May from \$857 million (CAD) in April, citing an increase in exports to \$36.9 billion (CAD) and a 0.3% decline in prices. Statscan notes the higher volumes were led by the machinery and equipment and automotive products sectors; while energy products were the main contributor to the slight price decline
- European Union (EU) leaders are planning to hold an emergency summit meeting on Friday, July 15th. regarding Greece's debt situation; after EU finance ministers acknowledged for the first time that some form of Greek default may be needed to reduce Athens' debts and halt contagion to other EU countries such as Italy and Spain. See also, Winter Warning, June 29, 2011 – The International Debt Crisis – Ensnared by the Demon of Debt

- Fitch Ratings downgrades Greece's sovereign debt credit rating to 'CCC' from 'B' (High), citing "the absence of new European Union (EU) / International Monetary Fund (IMF) financial assistance for the country and growing uncertainty about the role private investors would play in any bailout. While asset sales of 65 billion euros look attainable in 2011, the privatization program will become increasingly challenging."
- The price of gold bullion closes at an all-time high of \$1,585.50 (U.S.) per troy ounce, amid continuing investor concerns regarding not only, sovereign debt problems within the European Union, but also, stalled statutory debt ceiling negotiations at the White House. Separately, in his semi-annual testimony before the House Financial Services Committee, Federal Reserve Chairman Ben Bernanke asserts: "The possibility remains that the recent (economic) weakness may prove more persistent and as such, a need for further monetary policy support (quantitative easing – QE3) has not been ruled out."

WEDNESDAY, JULY 13TH

- The statistics bureau reports China's gross domestic product (GDP) grew by 9.5% in the 2nd. quarter on a year-over-year basis, citing "the economy's momentum remained strong with gains in investment by local governments and private businesses"
- The Office for National Statistics reports U.K. jobless benefit claims increased by 24,500 to 1.52 million in June, the highest level since March 2010; while the total unemployed declined by 26,000 to 2.45 million in the 3 months ending in May, as an increasing number of young people enrolled in full-time education in lieu of seeking employment
- In its first Fiscal Sustainability Report, the Office for Budget Responsibility (OBR) warns: "On current (fiscal) policy, we would expect to see (U.K.) public sector net debt on a continuously rising trajectory as a share of gross domestic product (GDP). This would clearly be unsustainable. The main lesson of our analysis is that future governments must undertake some additional fiscal tightening beyond the current parliament; meaning politicians would have to implement a permanent tax increase or spending cut equating to 1.5% of GDP – 22 billion pounds in today's terms – in 2016-17 to bring the debt back to pre-financial crisis level of 40% by 2060-61. That extra tightening would be in addition to the (Exchequer) Chancellor's current 110 billion pound austerity package of spending cuts and tax increases by 2015. A worst case scenario would see health spending rise even more than expected, requiring a tightening of around 55 billion pounds from 2016-17."

- Moody's Investors Service places the U.S. 'AAA' sovereign debt credit rating on review for possible downgrade warning: "The United States will lose its 'AAA' credit rating if the U.S. Congress fails to raise the nation's \$14.3 trillion (U.S.) statutory debt limit. The political gridlock on Capitol Hill over the debt ceiling has only intensified anxieties over the economy's faltering recovery ... Moody's considers the probability of a default on interest payments to be low, but no longer to be 'de minimis' ... Failure to strike an agreement before the August 2nd. deadline is likely to trigger a first default by the United States government."



THURSDAY, JULY 14TH

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 22,000 to a seasonally adjusted 405,000 in the week ended July 9th. while continuing claims increased by 15,000 to 3.73 million in the week ended July 2nd. The number of people who have exhausted their traditional benefits and who are now receiving emergency or extended benefits from federally sponsored programs fell by about 15,000 to 3.83 million in the week ended June 25th.
- The Labor Department reports the U.S. Producer Price Index (PPI) declined by 0.4% in June, citing a 4.7% drop in the price of gasoline
- Standard and Poors (S&P) places the United States on credit watch, warning it may lower America's 'AAA' sovereign debt credit rating because of the political impasse over cutting the federal deficit. "The political debate about America's fiscal stance and the related issue of the statutory debt ceiling has, in our view, only become more entangled. Consequently, we believe there is an increasing risk of a substantial policy stalemate enduring beyond any near-term agreement to raise the debt ceiling."

FRIDAY, JULY 15TH

- The European Banking Authority (EBA) reports eight European banks failed recent stress tests – 5 in Spain; 2 in Greece and 1 in Austria – however, investors remain skeptical the tests were not severe, since the capital shortfall only amounted to only 2.5 billion euros
- The Thomson/Reuters/University of Michigan index of U.S. consumer sentiment declines to a reading of 63.8 in July from a level of 71.5 in June, citing smaller job gains, falling home prices and no agreement regarding the statutory debt ceiling negotiations
- The Labor Department reports the U.S. Consumer Price Index (CPI) rose by 0.3% in June, while factory production remained unchanged from May data
- According to the Globe and Mail, nearly four decades after discovering a huge natural gas field in Canada's Mackenzie Delta and struggling, along with its partners, with Canada's onerous regulatory system to get it to market, Royal Dutch Shell PLC has given up and put all of its assets in the area on the sales block, including its reported 11.4% stake in the \$16.2 billion (CAD) Mackenzie Gas Project. In announcing the asset divestiture: "Shell believes the Mackenzie Delta is an exciting basin, opening an opportunity that provides a gateway to the Beaufort Sea and is important for economic development in the Canadian Arctic. However, as part of its regular global portfolio review, Shell has decided to focus its resources on other options."

The Obama-Pelosi Blowout

Spending as a share of GDP, 1960-2011*



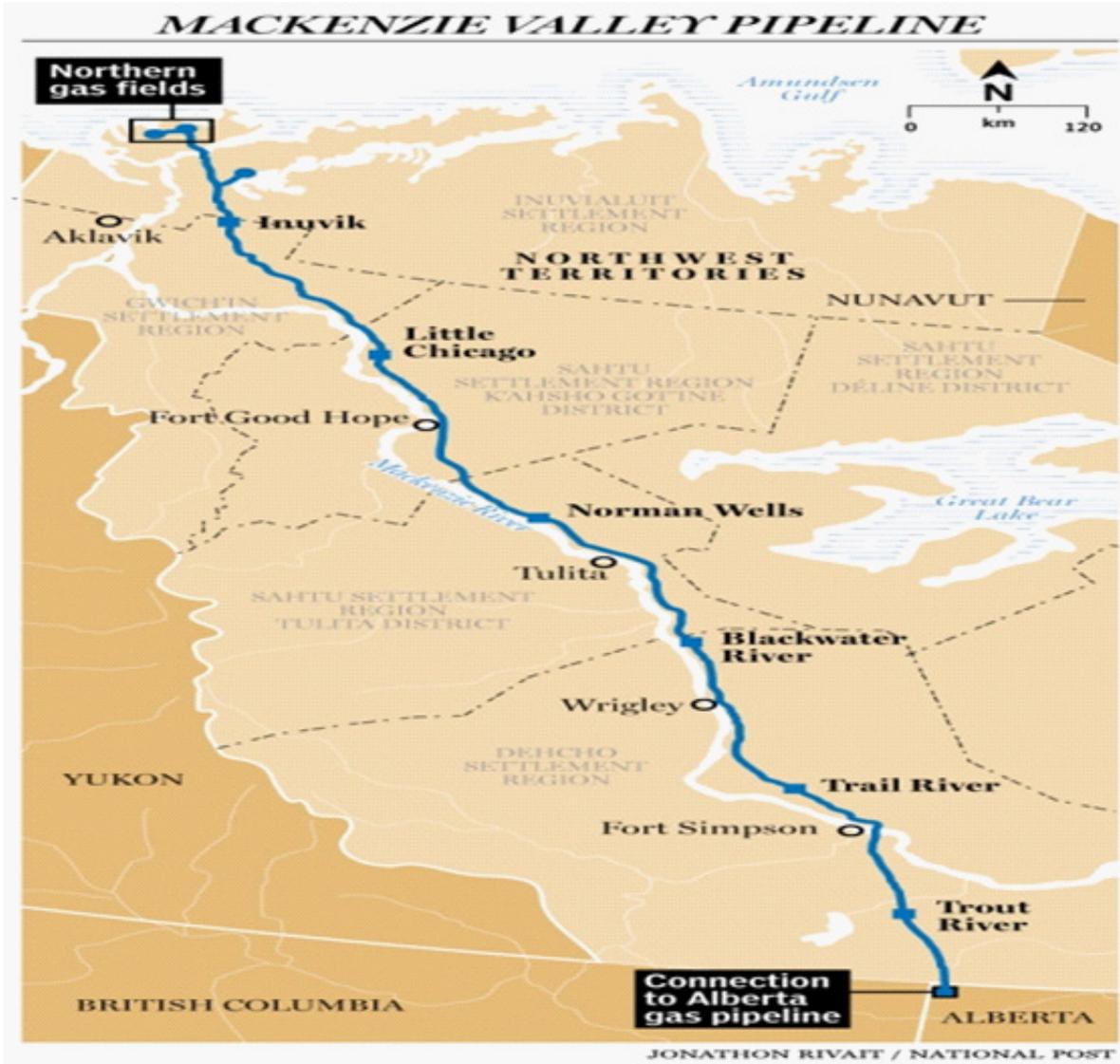
*2011 estimate

Source: Office of Management and Budget

CLOSING LEVELS FOR FRIDAY JULY 15TH.

WEEKLY CHANGE

Dow Jones Industrial Average	12,479.73	- 177.47 points
Spot Gold Bullion (August)	\$1,590.10 U.S.)	+ \$48.50 per oz.
S&P / TSX Composite	1,316.14	- 21.03 points
10-year U.S. Treasury Yield	2.91%	- 12 basis points
Canadian Dollar	104.79 cents (U.S.)	+ 0.70 cent
U.S. Dollar Index Future (Spot Price)	75.126 cents	- 0.154 cent
WTI Crude Oil (August)	\$97.24 (U.S.)	+ \$1.04 per barrel



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