

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

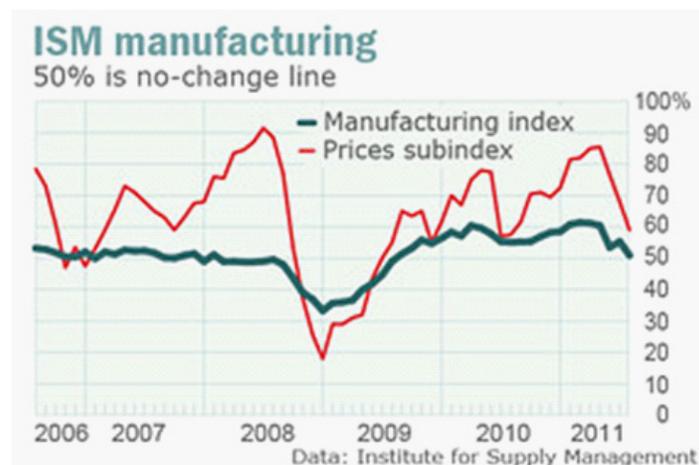


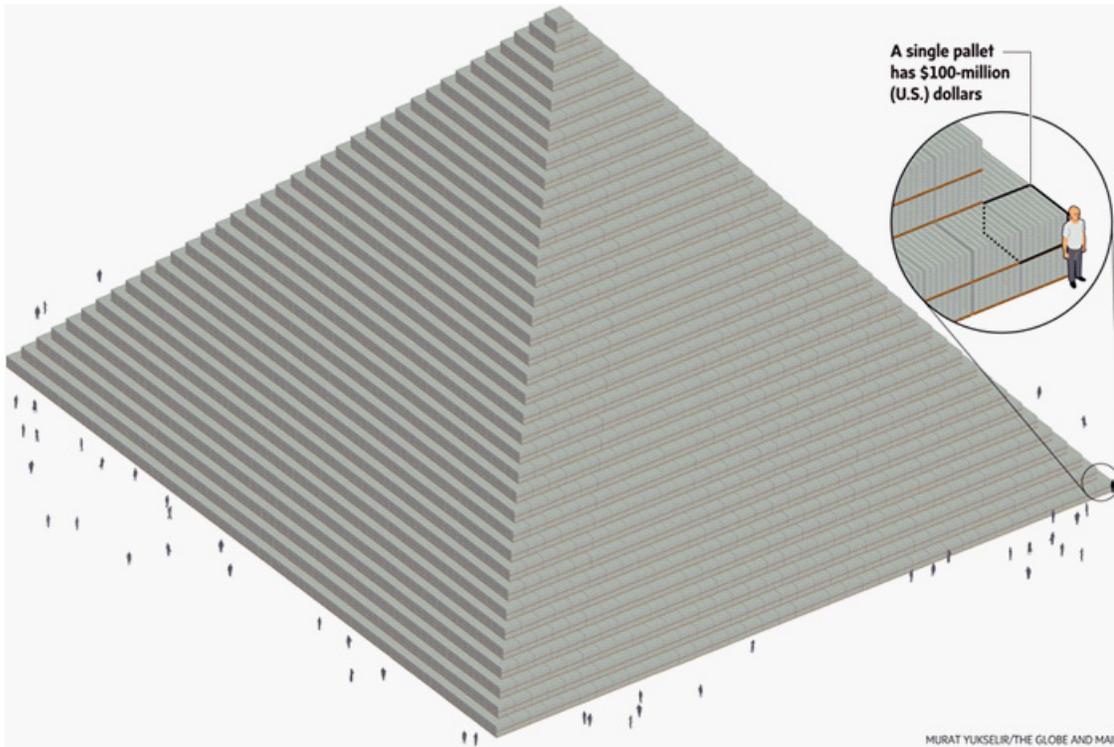
Monday, August 1st

The Markit Eurozone manufacturing purchasing managers' index declined to a reading of 50.4 in July from a level of 52 in June, citing economic growth in the 17 euro nations is moving closer to stagnation

MONDAY, AUGUST 1ST

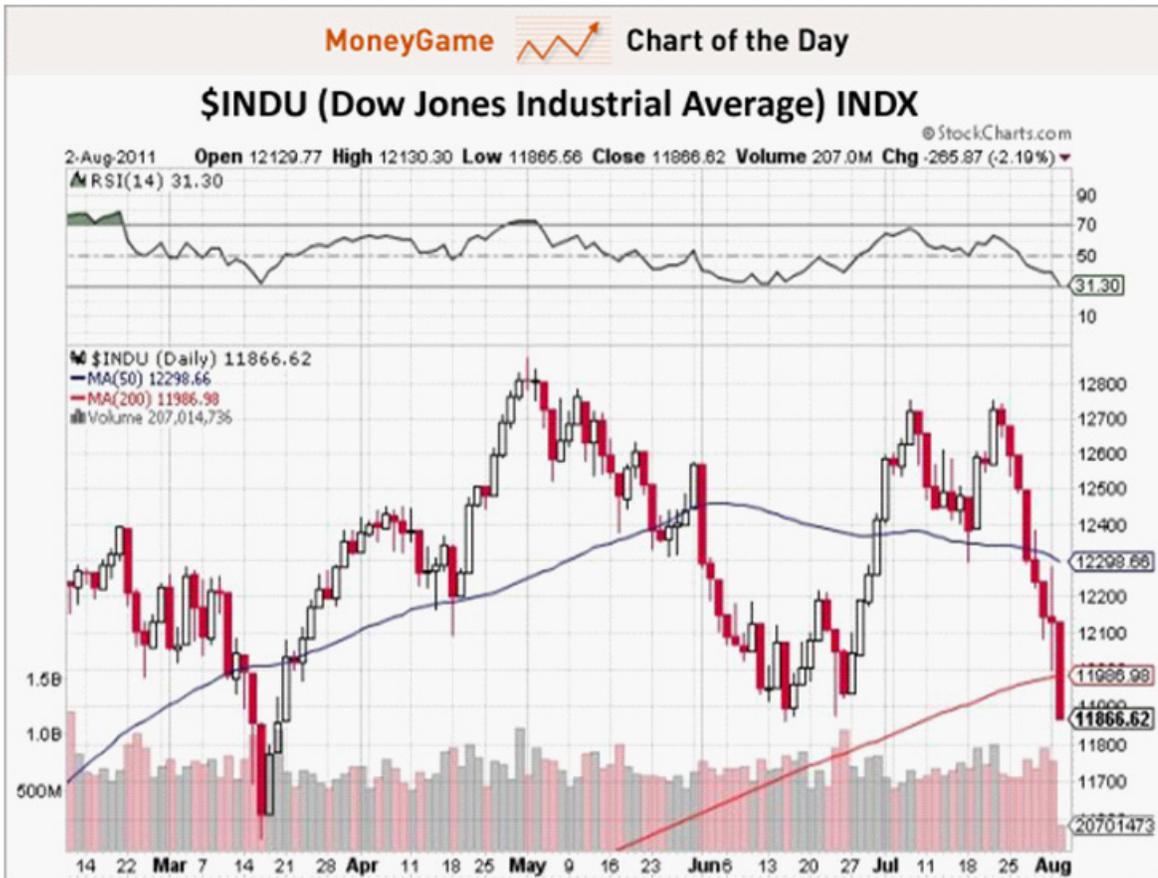
- Hong Kong and Shanghai Banking Corp. (HSBC) announces 30,000 job layoffs by the end of 2013, about 10% of its global work force, citing \$3.5 billion (U.S.) in cost reductions in employee wages as it prepares for the implementation of more stringent capital regulations
- Markit and the Chartered Institute of Purchasing and Supply report the U.K. purchasing managers' index declined to a reading of 49.1 in July following a level of 51.4 in June. Lee Hopley, chief economist at the EEF – the manufacturing industry's business group – commented: "We may be seeing signs that (U.K.) manufacturing may have stalled on the back of more general global weakening."
- The Institute for Supply Management's U.S. manufacturing index declines to a reading of 50.9 in July – a two-year low – following a level of 55.3 in June. Millan Mulraine, senior U.S. analyst at TD Securities commented: "In tracking economic activity, this indicator is pointing to a further disconcerting negative turn in the trajectory of the (U.S.) recovery." The ISM index is calculated by polling purchasing managers regarding increasing or decreasing levels of manufacturing activity compared to the prior month. The headline index is a composite of the seasonally adjusted indexes for new orders, factory production, employment, supplier deliveries and inventories.
- By a vote of 269 to 161, the U.S. House of Representatives passes legislation enabling the statutory debt limit of \$14.3 trillion (U.S.) to be raised by \$2.1 trillion (U.S.) over the next 18 months. Under a compromise agreement, a new congressional bipartisan committee must either, draft a 10-year, \$1.5 trillion (U.S.) deficit reduction plan by November, or, automatic cuts in social entitlement programs (Social Security) and the Department of Defense budget would be activated. In addition, the mandate of the bipartisan committee – consisting of three Democrats and three Republicans – will include consideration of tax code reform which could increase revenues.





TUESDAY, AUGUST 2ND

- The Commerce Department reports U.S. personal income rose marginally by 0.1% in June, while consumer spending fell by 0.2%, the first decline in nearly two years
- By a vote of 74 to 26, the U.S. Senate approves the statutory debt limit legislation passed yesterday by the House of Representatives. Accordingly, President Obama signed the bill into law, thereby, averting any near-term threat of a U.S. default.
- Barclays PLC Chief Executive Officer Bob Diamond announces 3,000 job layoffs effective prior to December 31st. as the bank launches a cost reduction program
- According to Autodata Corp. U.S. auto makers sold 1,059,601 cars and light trucks in July, just 0.9% more than a year ago and at an annual pace of 12.23 million vehicles. While that pace was higher than June's rate of 11.56 million and May's 11.73 million; it was still below the 1st. quarter's pace above 13 million. Chrysler Group LLC stood alone among major auto makers by posting a 20% increase in U.S. sales
- In our Ian's Investment Insights publication of June 12, 2011 we wrote: "On the (U.S. stock market) downside the (chart) numbers to watch are 11,880, then 11,500 and 11,080 which is the Dow Jones mid-Bollinger band on the monthly chart. Any monthly closing break below these levels could see the DJIA move to the bottom Bollinger band, which currently stands at 9,265." Today, the Dow Jones Industrial Average closed at 11,866.62 points – down for the 8th. consecutive trading day – something not witnessed since October 2008.
- Fitch Ratings affirms the U.S. sovereign debt credit rating as 'AAA' citing: "strong corporate balance sheets and the continued dominance of the U.S. dollar as the world's reserve currency. However, the country still hasn't fully enacted a credible plan to secure its 'AAA' status over the medium term. While the (bipartisan compromise) agreement is clearly a step in the right direction, the United States, as in much of Europe, must also confront tough choices on tax and spending against a weak economic backdrop, if the budget deficit and government debt are to be cut to safer levels over the medium term."



WEDNESDAY, AUGUST 3RD

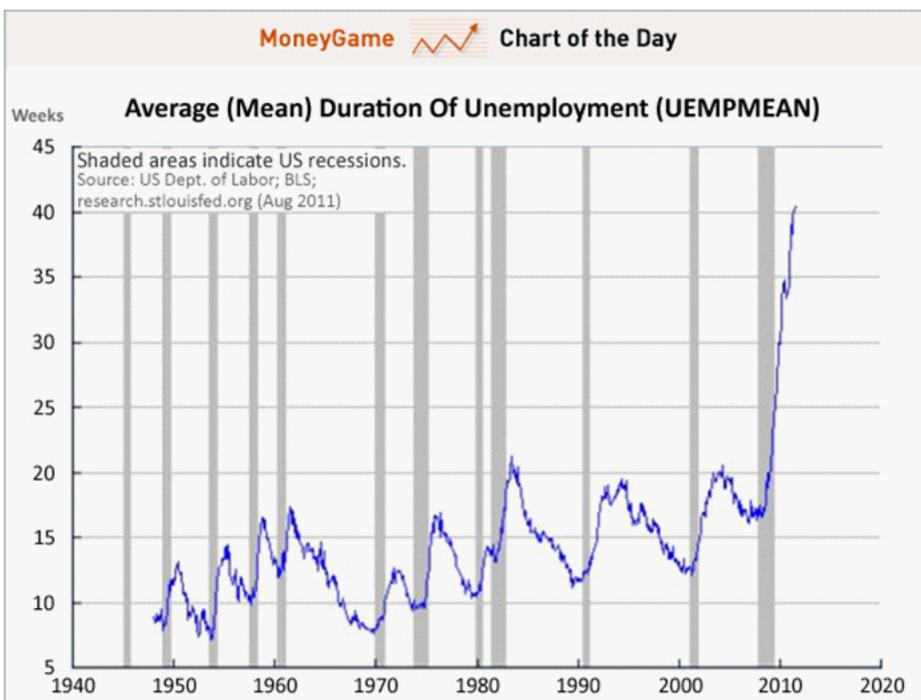
- According to data compiled by ADP Employer Services, American companies added 114,000 employees to payrolls in July, following a revised gain of 145,000 in June
- Moody's Investors Service affirms the U.S. sovereign debt credit rating as 'AAA' but "with a negative outlook." Steven Hess, Moody's senior credit officer in New York warned: "The (statutory debt limit) compromise is a positive step toward reducing the future path of the deficit and debt levels. (However,) we do think more needs to be done to ensure a reduction in the debt to gross domestic product (GDP) ratio."
- According to the New York Times, U.S. Senate negotiators failed to end a stalemate yesterday regarding temporary financing for the Federal Aviation Administration (FAA), leaving 4,000 agency employees out of work and relying upon airport safety inspectors to continue working without pay at least through the Labor Day holiday weekend; costing the federal government about \$1 billion (U.S.) in tax revenues on airline ticket sales. Also idled are tens of thousands of construction workers employed on airport projects around the country.



- The Tempe, Arizona-based Institute for Supply Management (ISM) reports its U.S. non-manufacturing index declined to a reading of 52.7 in July, following a level of 53.3 in June
- Ford Canada's combined car and truck sales rose by 0.5% to 27,344 vehicles in July, as a 9.5% increase in car sales to 8,162 units was largely offset by a 2.9% decline in truck sales to 19,182 units
- The Commerce Department reports U.S. factory orders declined by 0.8% in June, following a gain of 0.6% in May

THURSDAY, AUGUST 4TH

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 1,000 to about 400,000 in the week ended July 30th. while continuing claims rose by 10,000 to 3.73 million in the week ended July 23rd. Those people who have exhausted their traditional unemployment benefits and are now receiving emergency or extended benefits under federal programs increased by about 42,000 to 3.72 million in the week ended July 16th.
- Germany's economy ministry reports the nation's manufacturing orders rose by 1.8% in June citing: "A clearly above average volume of large orders from abroad for investment goods has contributed decisively to the current rise in orders."
- The European Central Bank (ECB) announces the resumption of its government bond purchasing program and offers loans to euro zone banks, in an attempt to relieve tensions in the region's financial markets
- The Dow Jones Industrial Average (DJIA) registers a 513 point drop to close at 11,383 points while the S&P 500 declines 60 points to close at the 1,200 level. At Long Wave Analytics, we have been warning for months that excessive debt at the federal, state, municipal and individual levels lie at the root of America's financial woes. See also, Winter Warning, February 15 /11 – The Economic and Financial Outlook for 2011.
- According to the Washington Post, American congressional leaders reach agreement on stopgap funding for the Federal Aviation Administration (FAA) ending a stalemate which cost 4,000 furloughed federal workers almost two weeks of pay and drained in excess of \$300 million (U.S.) from the U.S. Treasury. U.S. Transportation Secretary Ray LaHood reflected: "From construction workers to our FAA employees, they will have the security of knowing they are going back to work and get a paycheck, and that's what we've been fighting for." Senate Majority Leader Harry Reid (D-Nev.) commented: "This agreement does not resolve the important differences that still remain. However, I believe we should keep Americans working while Congress settles its differences and this agreement will do exactly that."
- U.S. retailers Macy's, Costco and Target exceeded analyst expectations in July, amid margin-cutting summer clearance sales
- The Bank of Japan intervenes in the foreign exchange market by not only, selling 4 trillion yen (\$50.3 billion U.S.) to curb speculation in the rising value of its currency, but also, extending current asset and lending facilities by 10 trillion yen



FRIDAY, AUGUST 5TH

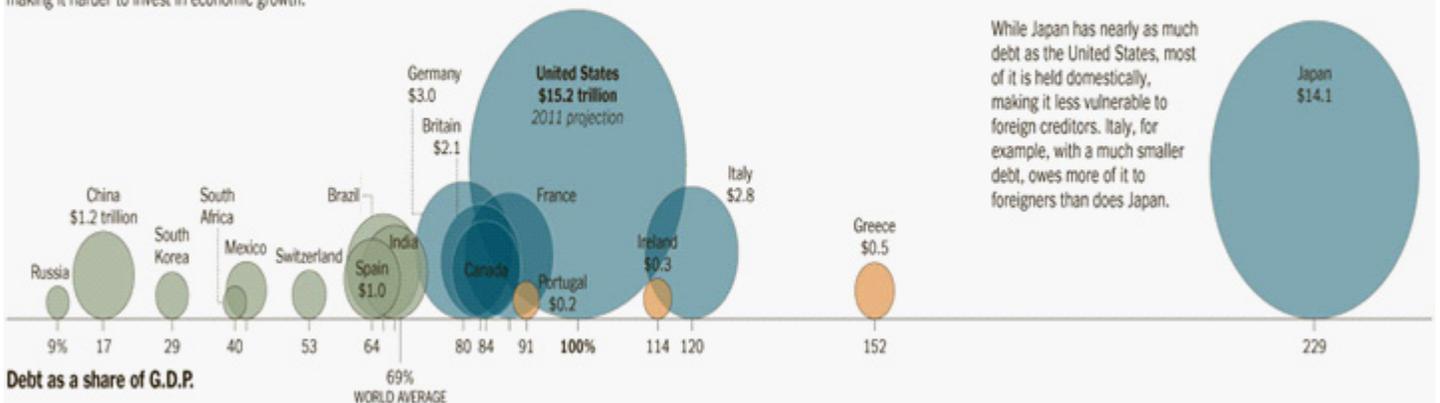
- The Labor Department reports U.S. non-farm payrolls increased by 117,000 in July, following an upwardly revised gain of 46,000 in June, while the unemployment rate declined slightly to 9.1% from 9.2%. Separately, the private sector added 154,000 jobs in July following an 80,000 gain in June.
- Front Page Headline, Financial Times-“Stock Markets Plunge Worldwide. Interventions fail to ease turmoil. Central banks credibility hit. Fears on eurozone debt.”
- Front Page Headline, The Daily Telegraph- “Debt Crisis Deepens. Fears grow over Italy and Spain. EC President demands urgent action. Global stock markets fall heavily.”
- According to CNN Money nearly 15% of Americans – a record-breaking 45.8 million – participated in the Supplemental Nutritional Assistance Program (America’s food stamp program) during the month of May
- The U.S. government-owned Federal National Mortgage Association (Fannie Mae) reports a loss of \$5.18 billion (U.S.) in the 2nd. quarter ended June 30th. In a statement of bravado prior to asking the U.S. Treasury for another \$5 billion (U.S.), Fannie Mae President and Chief Executive Officer Michael Williams remarked: “We remain the largest source of liquidity for the U.S. mortgage market and we are committed to creating long-term value by helping to build a stable, sustainable housing market for the future.”
- According to the National Post, the entire police force of 26 officers resigned their posts in the northern Mexican town of Ciudad Juarez – directly across the Rio Grande border from El Paso, Texas – following the murder of two of their colleagues in an armed attack by drug gangs. “The officers were afraid and resigned,” observed Mayor Jaime Dominguez Loya of nearby Ascension in Chihuahua State. More than 41,000 people have died in violence blamed on Mexico’s drug cartels since the end of 2006, when President Felipe Calderon deployed some 50,000 troops to fight organized crime.
- The Royal Bank of Scotland Group PLC reports a net loss of 897 million pounds in the 2nd. quarter compared with a profit of 257 million pounds in the same period a year ago, citing a write-down of its Greek bond holdings by a massive 733 million pounds (\$842 million U.S.).
- Standard & Poors (S&P) downgrades the United States’ sovereign debt credit rating – for the first time in 94 years – to ‘AA’ (High) with a negative outlook from ‘AAA’ citing: “difficulties in bridging the gulf between political parties” in the recent debt ceiling compromise, which reduces the projected national debt by \$2 trillion (U.S.) over the next decade, “is insufficient to stabilize the government’s medium term debt dynamics.” See also, Winter Warning, September 22, 2008 – The Die Is Cast – The Flight to Folly

World Governments, Saddled by Debt

The United States government owes the most amount of debt of any country in the world. But many other industrialized nations also have large debt burdens. More troubling, most of those debt levels are high in comparison to each country’s gross domestic product, making it harder to invest in economic growth.

● Industrialized countries with large economies ● Countries that recently received bailouts ● Other countries

Circle size represents the gross debt owed by each country. Gross debt and debt as a share of G.D.P. are 2011 projections.



While Japan has nearly as much debt as the United States, most of it is held domestically, making it less vulnerable to foreign creditors. Italy, for example, with a much smaller debt, owes more of it to foreigners than does Japan.

- Statistics Canada reports Canadian employers added 7,100 workers in July as the nation's unemployment rate fell to 7.2% from 7.4% in June

CLOSING LEVELS FOR AUGUST 5TH.		WEEKLY CHANGE
Dow Jones Industrial Average	11,444.60	– 698.64 points
Spot Gold Bullion (December)	\$1,651.80 (U.S.)	+ \$23.50 per oz.
S&P / TSX Composite	12,162.20	– 760.60 points
10-Year U.S. Treasury Yield	2.56%	– 24 basis points
Canadian Dollar	101.93 cents (U.S.)	– 2.73 cents
U.S. Dollar Index Future (Spot Price)	74.524 cents	+ 0.779 cent
WTI Crude Oil (September)	\$86.88 (U.S.)	– \$8.82 per barrel

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