Monday February 27th, 2012

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, February 27th

Front Page Headline, Wall Street Journal – "G-20 Defers Additional Aid for Europe. Following a weekend meeting in Mexico City, G-20 finance ministers and central bankers issued a joint statement: 'Since we anticipate a euro zone agreement to expand the

MONDAY, FEBRUARY 27TH

European Financial Stability Facility (EFSF) in March, we have decided to await that move which will provide an essential input in our ongoing consideration to mobilize resources to the International Monetary Fund (IMF).' Effectively, the decision defers further discussion of new international support until the G-20 ministers' meeting in April. Officials are hoping that could lead to a final, confidence-boosting agreement at an economic summit of world leaders in June."

- Front Page Headline, Financial Times – "Merkel Warns MPs over Greek Bailout. Amid calls from a growing chorus of public figures to let Athens default, German Chancellor Angela Merkel warns a packed parliament: 'Forcing Greece to leave the euro would have consequences that are incalculable and therefore irresponsible. While this second rescue package contains many dangers, the opportunities in the new program outweigh the risks for Greece and the entire euro zone.' The Chancellor was addressing the Bundestag prior to a vote on a 130 billion euro rescue package for Greece, which is concurrent with a Greek sovereign debt exchange, in a second attempt in two years to make the country viable. Chancellor Merkel stressed: 'Such private sector involvement – with talks continuing into March – are an unprecedented process for the euro zone, which if successful, could reduce the risk of financial market contagion in the region."

- Front Page Headline, Financial Times – "S&P Downgrades Greece to Selective Default Status. Standard and Poor's explains: 'The downgrade follows the retroactive insertion by Athens of a collective action clause (CAC) forcing all bondholders to accept the terms of the bond exchange put forward by the government for bonds issued under Greek law (public sector involvement). The Greek government PSI initiative constitutes the launch of what we consider to be a distressed debt restructuring … we believe the retroactive insertion of CACs will diminish bondholders' bargaining power in a forthcoming debt exchange. But, if the debt exchange were completed as planned, S&P would consider the selective default to be cured and would raise Greece's credit rating by one level."

TUESDAY, FEBRUARY 28TH

- The Commerce Department reports U. S. durable goods orders declined by 0.4% in January, citing lower orders for commercial aircraft and heavy machinery; as well as the year-end expiration of a temporary business tax credit

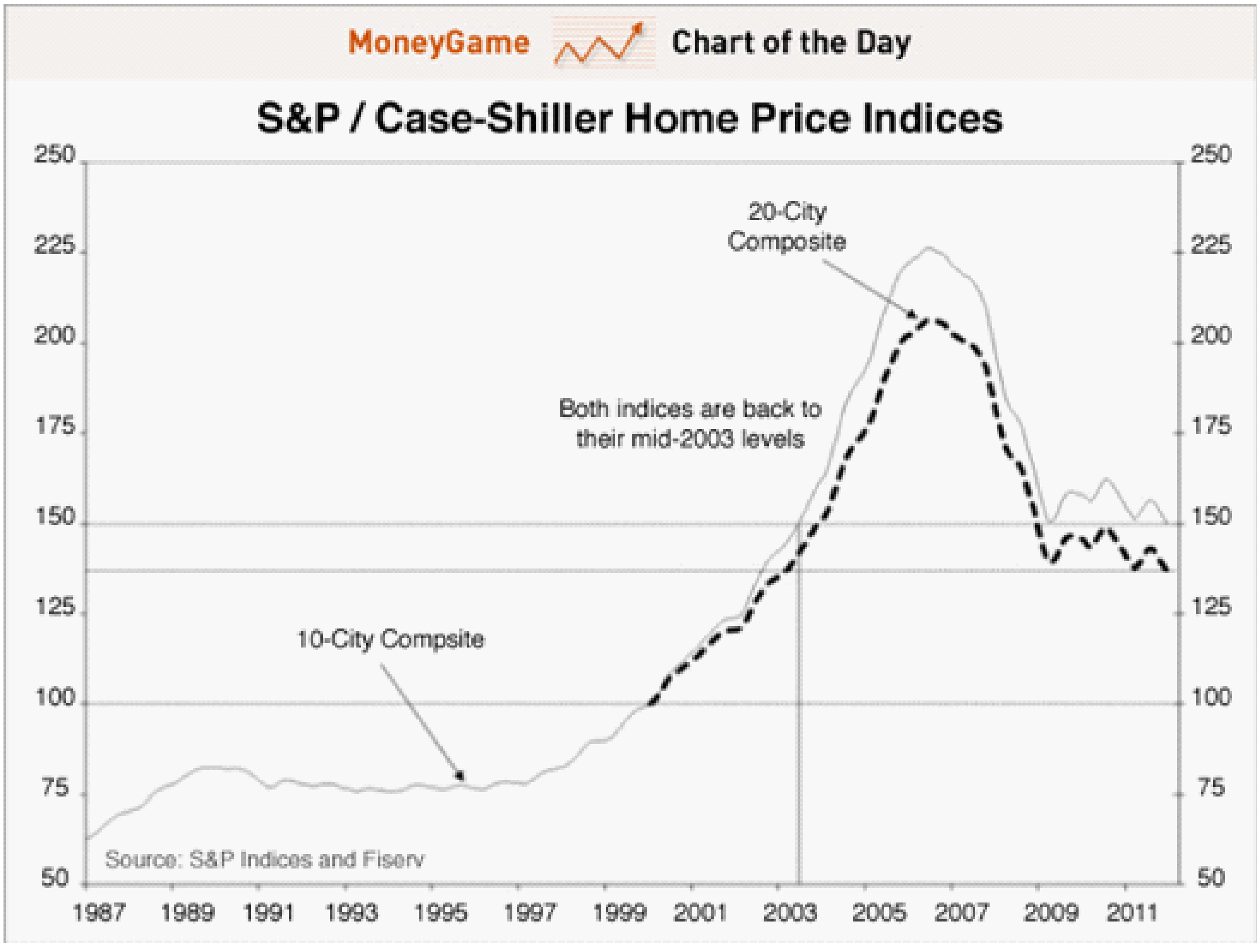
- The Conference Board reports its index of U.S. consumer confidence rose to a reading of 70.8 in February from a revised level of 61.5 in January. This survey's cutoff date must have occurred prior to last week's meteoric increase in crude oil prices.

- Front Page Headline, Bloomberg News – "Pension Commitments Mount as Low Interest Rates Increase Liabilities. General Electric, Boeing and 3M Company will join other big American corporate employers in making a record $100 billion (U.S.) in pension contributions in 2012, about 67% more than two years ago. According to pension consultant Milliman Inc. pension payments may total $400 billion (U.S.) from 2011through 2015 to ease underfunding at the 100-largest corporate defined benefit programs. Milliman also estimates that corporate assets as of January were insufficient to cover 75% of projected payouts. Alan Glickstein, a senior retirement consultant at Towers, Watson & Co. in New York commented: 'It's been called the wall of contributions. All of a sudden this obstacle appears and stays there for a few years. That's what it looks like – a wall."

- The S&P/Case-Shiller index of property values in 20 U.S. cities declined by 4% in December on a year-over-year basis, following a 3.9% decline in November, citing distressed properties and foreclosures continuing to depress prices

- The European Commission (EC) reports its index of executive and consumer sentiment for the 17-nation European Union (EU) increased slightly to a reading of 94.4 in February from a level of 93.3 in January, citing the German economy (Europe's largest) has softened the impact of tougher austerity measures across the euro zone, as companies increased output and hiring to meet export demand

- Front Page Headline, Financial Post – "Ireland To Hold Referendum on Euro Zone Fiscal Pact. Ireland's Prime Minister Edna Kenny announces: 'Dublin's senior legal advisor has advised that on balance the Irish constitution requires the European Union (EU) treaty to be put to a vote. I am confident the Irish people will do what is necessary … In the end, what this will come down to is a vote for economic stability and economic recovery.' It is likely to take at least three months to organize a referendum, potentially placing a question mark over Ireland's membership in the EU.



- Front Page Headline, Financial Times – "Democrats Grow Confident of House Win. Democrats are optimistic that they can regain control of the House of Representatives in the November election, an outcome which would mark a sharp reversal from the major defeat dealt to the party in 2010. In a burst of optimism, Steve Israel, Chairman of the Democratic Congressional Campaign Committee waxes: 'We've come from a gale force wind against us to a sustained breeze at our backs.' Democrats need to capture 25 seats to take back the House from the Republicans … Most political analysts see Democrats gaining seats – probably between five and ten – but falling short of capturing a majority … While most of the attention has been on the contest to determine the Republican presidential nominee, the Congressional elections will be crucial in shaping the outcome of the huge fiscal decisions facing America after November. Among the questions facing the Congress will be how to handle the expiration of the Bush-era tax cuts, whether to continue payroll tax relief and how to deal with billions in automatic spending cuts in defence and domestic programs that are scheduled to take effect in the New Year. At the same time, lawmakers will need to raise the statutory debt ceiling again. The growing confidence in the Democratic Party is partly a result of the improving fortunes of President Obama, whose approval ratings have risen in recent months on the back of a better economy and the unsettled Republican presidential nominee race. Mr. Israel elaborates: 'Americans are also experiencing a form of buyer's remorse against Republicans, blaming them for the repeated impasses on fiscal policy, from the April standoff on a government shutdown, to the statutory debt ceiling in August, to the payroll tax cut extension fight in December.' See also, Economic Winters The Pathology of Debt and Erosion of Civil Liberties in America, February 1, 2012 and Federal Governments: The U.S. Constitutional Republic and the Canadian Constitutional Monarchy, February 22, 2012.

- In a new 428-page study, released at a hearing of the U.S. House Oversight and Government Reform Committee, the Government Accountability Office (GAO) reports: "The federal government is doing a poor job of coordinating its responsibilities in dozens of areas; including food safety, breast cancer research, assistance to small business owners and home buyers, as well as background checks for federal job applicants – a disorganization that could be costing taxpayers tens of billions of dollars annually." The GAO study is the second in a series of reports mandated by law to monitor and examine the federal budget for examples of mismanagement and overlap.

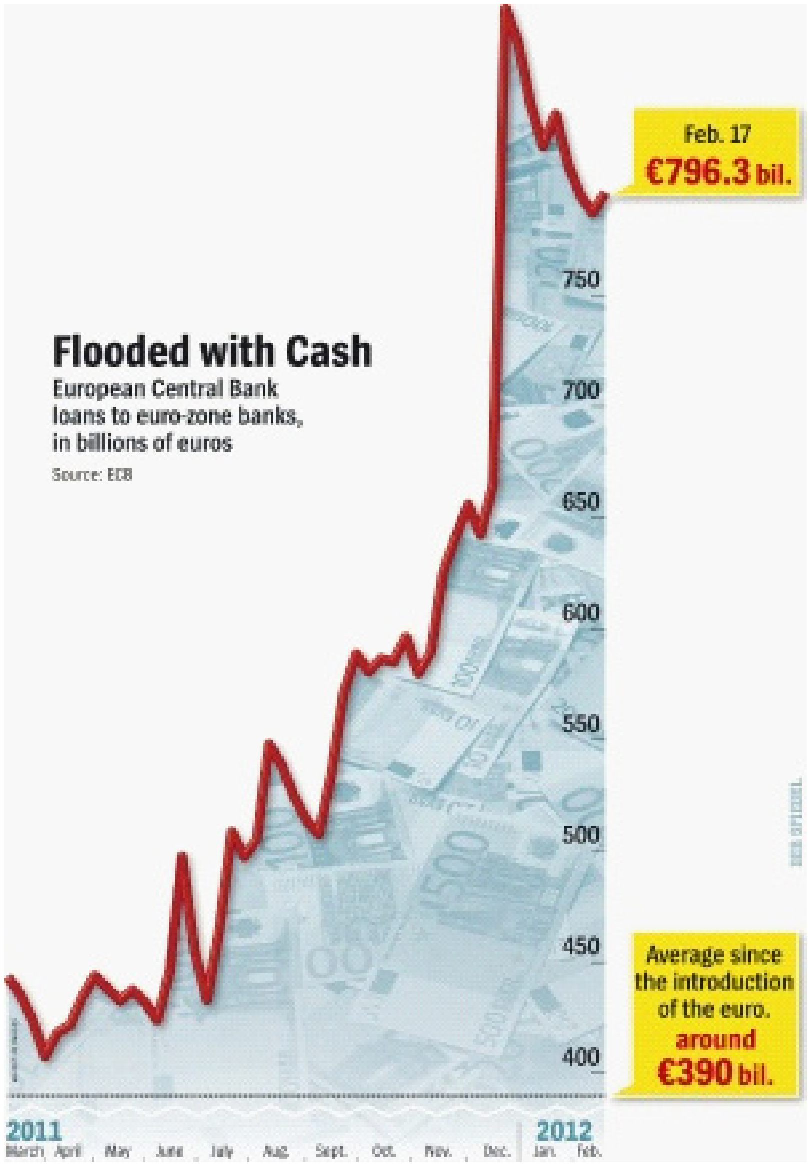
WEDNESDAY, FEBRUARY 29TH

- Front Page Headline, Globe and Mail – "OSC Adopts More Strategic Approach to Securities Regulation. Ontario Securities Commission Chairman Howard Wetston announces: 'I intend to make the OSC a 21st. Century Securities regulator that takes a more strategic approach to its work. In implementing the plan over the next three years, we will improve upon the Commission's policy-making processes, work more closely with investors and upgrade the monitoring of risks in financial markets as they evolve.' Separately, in a letter to Chairman Wetston, a seven-member OSC Investor Advisory Panel recommended that regulators, not only require mandatory bank membership in the office of the Ombudsman for Banking Services and Investments, but also, make OBSI decisions legally binding. Moreover, the panel suggested a better way to reduce disputes would be to mandate a legal fiduciary duty on the entire investment industry, making it clear the first duty is to customers, as currently exists for accountants and lawyers.

- The Teranet/National Bank Composite House Price Index declined by 0.2% in December from November, but was up by 6.8% on a year-over-year basis, citing the most recent January data from the Canadian Real Estate Association (CREA) revealed generally balanced conditions in major urban markets, although there was increased tightening in Vancouver, Victoria, Toronto, Hamilton, Winnipeg and Halifax

- The Commerce Department reports U.S. gross domestic product (GDP) expanded at an annual rate of 3% in the 4th. quarter of 2011, exceeding the previous estimate of 2.8%, citing a considerable amount of corporate inventory rebuilding. Separately, in testimony before the House Committee on Financial Services, Federal Reserve Chairman Ben Bernanke acknowledged: "Rising crude oil prices are likely to push up inflation temporarily while reducing consumers' purchasing power. However, the Fed expects the overall pace of increases in prices and wages to remain subdued. The recovery of the U.S. economy continues, but the pace of expansion has been uneven and modest by historical standards. Accordingly, the Fed does not expect further substantial decline in the unemployment rate this year. As a result, the Fed remains committed to continuing its economic stimulus efforts, keeping the Fed Funds rate near zero and maintaining a large portfolio of Treasurys and mortgage-backed securities to further reduce long term bond yields, holding down interest rates for businesses and consumers."

- Front Page Headline, Globe and Mail – "ECB Lends $712 Billion (U.S.) to Euro Zone Banks. The European Central Bank lends 529 billion euros at 1% for three years to about 800 European banks, complementing a similar liquidity initiative of last December when the ECB loaned 489 billion euros to 523 banks on the same terms. There was no doubt that more banks would take part in this liquidity operation because the ECB relaxed loan collateral requirements, providing hundreds of smaller banks with the opportunity to participate.



- Front Page Headline, Financial Times – "Portuguese Bond Yields Climb on Default Fears. After a report issued by the troika of the European Union (EU), the European Central Bank (ECB) and the International Monetary Fund (IMF) suggested to many bond traders that Lisbon was increasingly likely to need a second financial bailout package and increasing the possibility of a default, Portuguese 10-year bond yields jumped by 73 basis points to a yield of 13.75%. The troika's third review of Portugal's economic program concluded: 'Provided the authorities persevere with strict program implementation, the euro area member states have declared they stand ready to support Portugal until market access is regained."

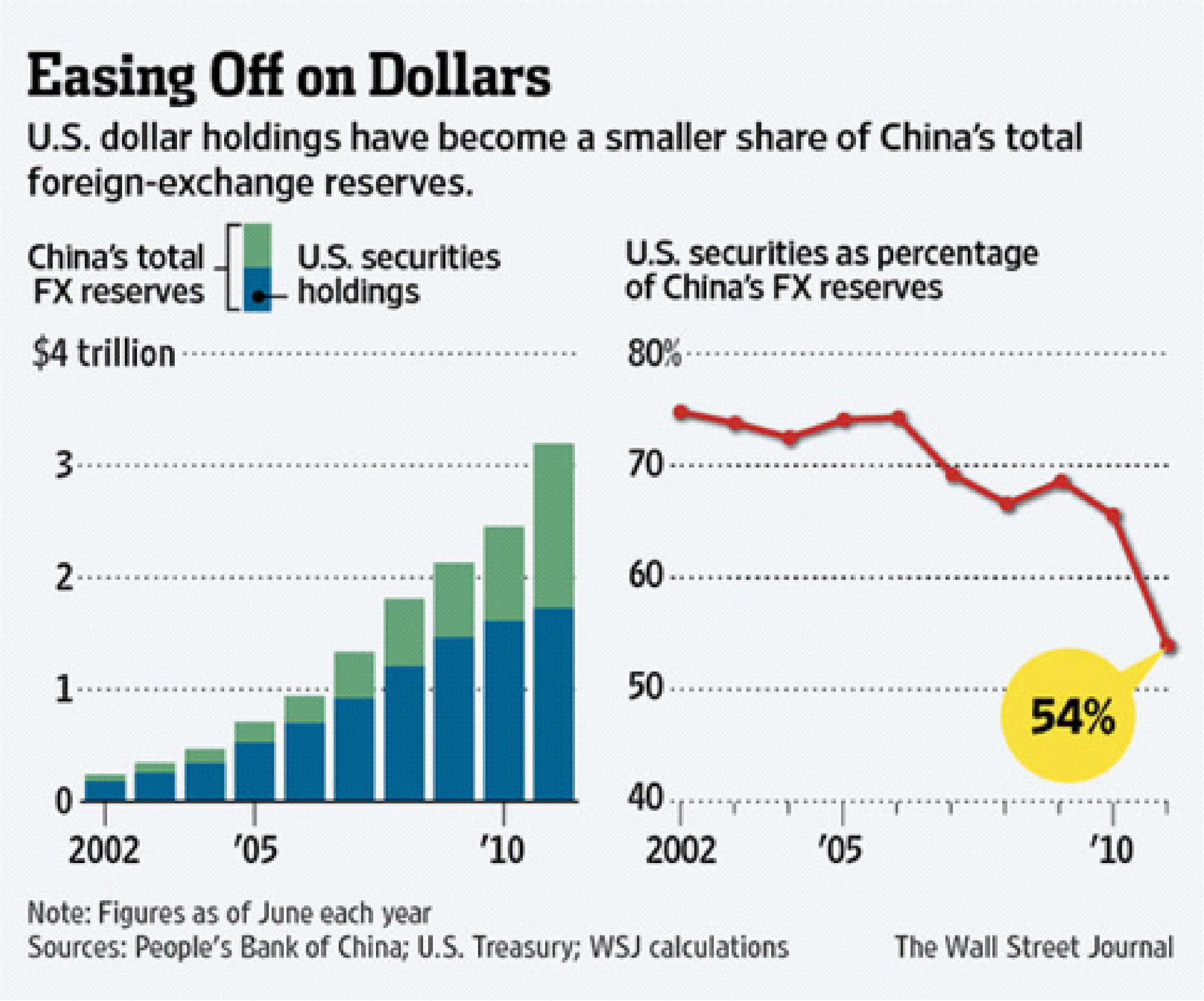
THURSDAY, MARCH 1ST

- Front Page Headline, Wall Street Journal – "Beijing Diversifies Away From U.S. Dollar. An analysis of U.S. Treasury Department data indicates China, with $3.2 trillion (U.S.) in currency reserves has begun to diversify the holdings in its foreign exchange portfolio, with less emphasis on the U.S. dollar. While China remains a buyer of U.S. fixed income securities, its holdings of U.S. Treasurys increased by only 7% to $1.73 trillion (U.S.) in the 12 months ended June 30, 2011. As a result, the percentage of dollar holdings in China's foreign exchange reserves declined to a decade low of 54% as at June 30, 2011 from 65% as at June 30, 2010. David Ader, head government bond strategist at CRT Capital in Stamford, Ct. commented: 'China has been diversifying for several years, but it's been incremental and they've told us that much. Simply diversifying into other currencies certainly makes sense."

- The Commerce Department reports U.S. construction spending declined by 0.1% in January, following a downwardly revised gain of 1.4% in December, citing a slowdown in the number of commercial and government projects currently at the blueprint stage

- The Tempe, Arizona-based Institute for Supply Management's factory index declined to a reading of 52.4 in February from a level of 54.1 in January. John Herrmann, President of Herrmann Forecasting in Summit, N.J. commented: "Economic data is somewhat choppy and inconsistent … Consumers have lingering concerns about job security and the durability of the (economic) expansion and are hesitant to increase their spending."

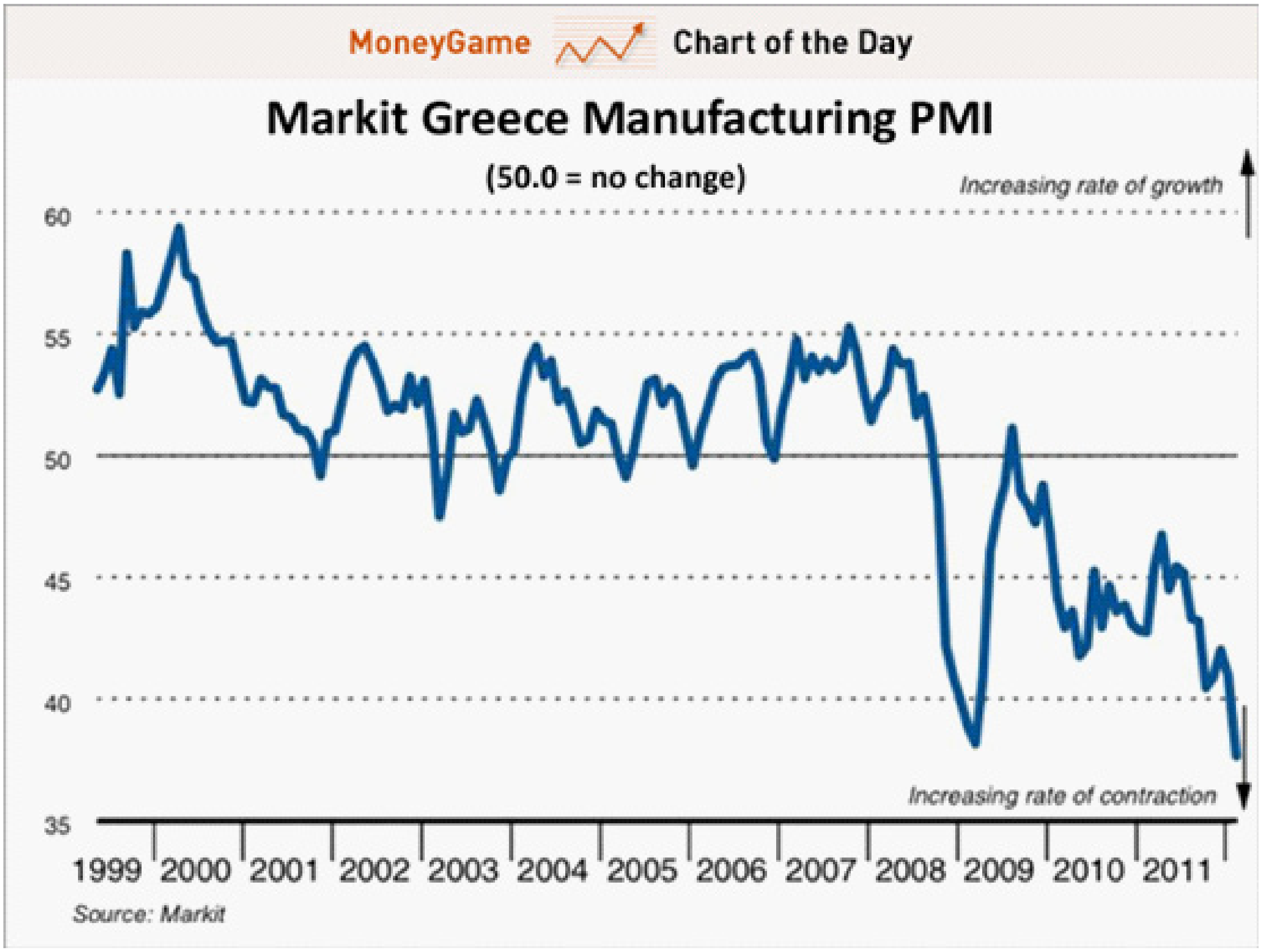
- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 2,000 to 351,000 in the week ended February 25th. while continuing claims also fell by 2,000 to 3.4 million in the week ended February 18th.



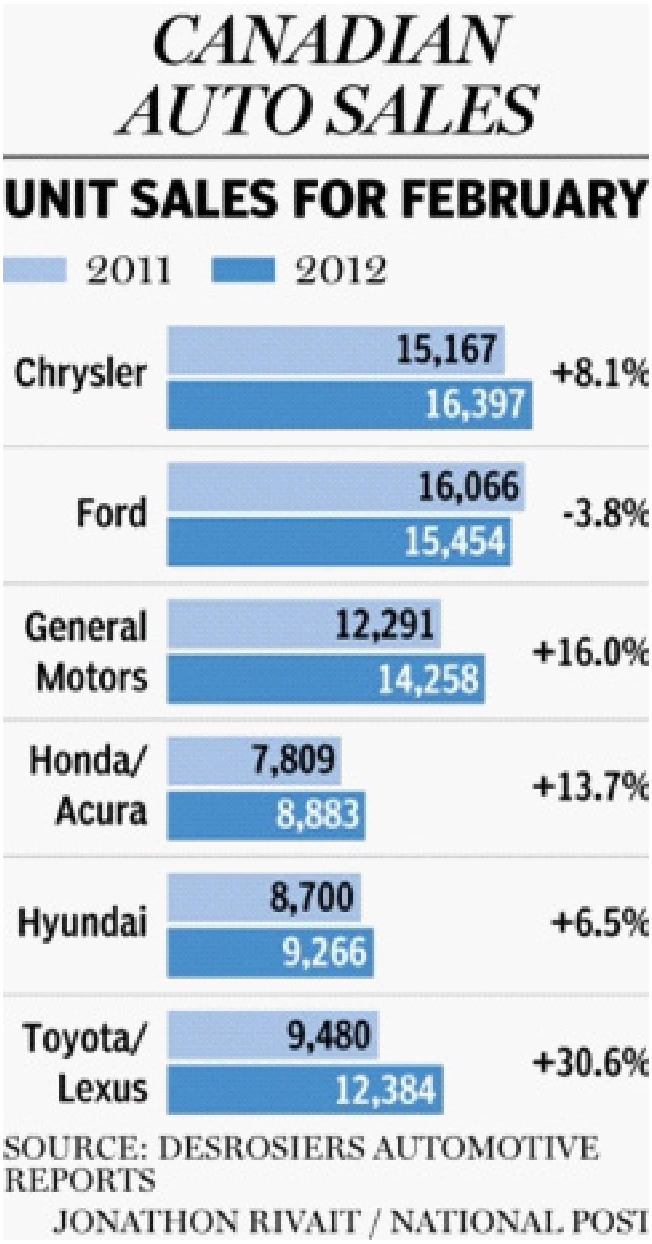
- Front Page Headline, National Post – "RBC, TD Overcome Headwinds to Beat Analyst Expectations. The share prices of the Royal Bank of Canada and the Toronto Dominion Bank surged to their highest level in nine months as lending to Canadian consumers and businesses powered the nation's two biggest lenders to a combined profit of $3.4 billion (CAD) in the first quarter of their fiscal year ending October 31, 2012. Both TD and RBC suffered from lower capital markets revenue."

- Front Page Headline, Daily Telegraph U.K. – "EU Finance Ministers Stoke Fears of Default after Delaying Greek Bailout Decision. European Union finance ministers approve the release of 58 billion euros for Greece's international creditors, but withheld the remaining 71.5 billion euros allocated to assist the Greek government. Jean Claude Juncker, head of the group of 17 finance ministers stated: 'A high level of participation in the Greek bond exchange and a positive assessment of the Greek austerity reforms were necessary conditions for the disbursement of the rescue package' thereby delaying the decision to bail out Athens until March 12th. perilously close to the nation's March 20th. default deadline.

- Front Page Headline, Financial Post – "Auto Sales Surge Back to Pre-Crisis Highs. Canadians and Americans alike are flocking to auto dealerships across North America at levels not seen since the global economic meltdown hit the industry in 2008. Chrysler Canada Inc. is emerging as the unexpected sales leader in the first two months of the year, as Canadian auto sales are up an astounding 13%. South of the border, sales rose at an annualized rate of 15 million vehicles in February, the highest in almost 4 years.
  Carlos Gomes, a senior economist at Scotiabank commented: 'There's really been a shift in the past couple of months from trucks to cars and I think it's directly related to fuel efficiency. Canadian car sales have spiked by 22% on a year-over-year basis during the January/February period, while truck sales have improved by just 7%. In the U.S. smaller fuel efficient cars accounted for 25% of the market, their highest level since last April, when the price of crude oil hit $110 (U.S.) as it did today. However, the resurgent sales are also the result of pent up demand, particularly in the U.S. where the average age of vehicles on the road has reached a record 11 years. In Canada, consumers



who typically would purchase a newer used vehicle are also being pushed into the new model market, due to a lack of vehicles in the market which suit their needs."



FRIDAY, MARCH 2ND

- The Ministry of Internal Affairs reports real spending by Japanese households, consisting of two or more people, declined by 2.3% in January from a year ago. Separately, the unemployment rate rose slightly to 4.6% from 4.5% in December.

- Front Page Headline, MarketWatch News – "Moody's Downgrades Greece to Lowest Rating. Moody's Investors Service downgrades Greece's sovereign debt credit rating to 'C' from 'Ca' citing 'losses of up to 70% expected to be incurred by bondholders under a mid-March distressed debt exchange. Moody's decision not to assign an outlook to the rating is based upon the very high likelihood of a default by the Greek government on its bonds; as well as the fact that 'C' is the lowest rating on Moody's rating scale."

- Statistics Canada reports the nation's gross domestic product (GDP) grew by an annualized rate of 1.8% in the 4th. quarter of 2011, following an upwardly revised growth rate of 4.2% in the 3rd. quarter. Export growth slowed to 4.6% from 16%, while imports rose by 2.2% following a 1.5% decline. For the year as a whole, the Canadian economy expanded at a 2.5% pace, compared with 3.2% in 2010.

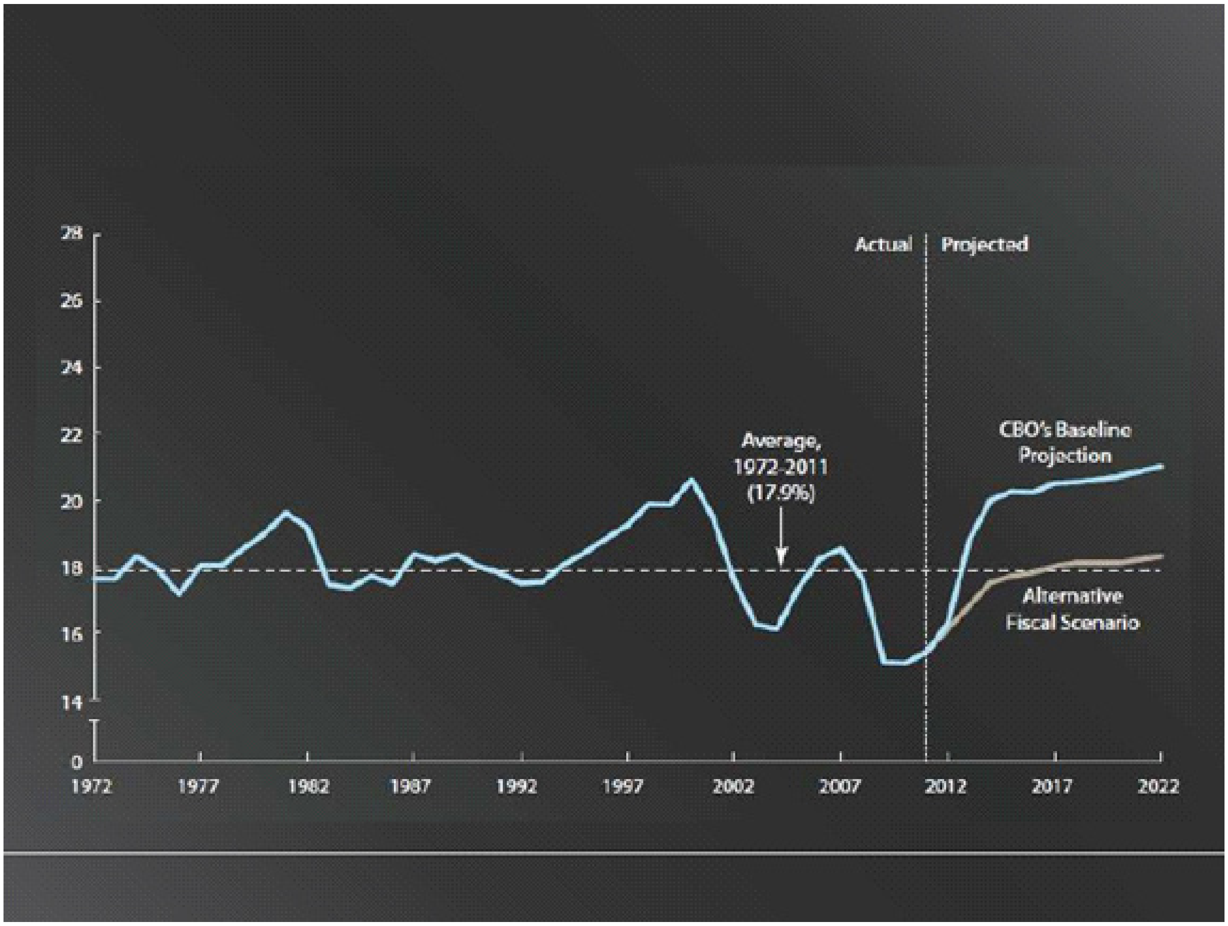
- Front Page Headline, Daily Telegraph U.K. – "Spain Planning to Breach EU Budget Targets. In a move that was heralded in Spain as defiance against the German-led austerity drive, Prime Minister Mariano Rajoy declared: 'Spain's budget deficit target will be 5.8% of gross domestic product (GDP) in 2012' (more than 30% higher than the 4.4% target agreed with Brussels). 'I just decided to set a new target rather than extract 44 billion euros from the budget at the time of economic crisis. This is now a sensible and reasonable target and a sovereign decision made by Spaniards.' Spain's appeals to Brussels to relax the budget targets have been rebuffed in recent days. Prime Minister Rajoy insisted: 'Spain will still honour its commitment to bringing its budget deficit down to 3% of GDP by 2013."

- Front Page Headline, Washington Post – "Ireland Struggles to Regain Economic Footing. In a new report, the International Monetary Fund warns: 'For all Ireland's efforts to abide by the guidelines under its $90 billion (U.S.) bailout package, it may be unable to reach one of its central goals: regaining sufficient investor trust to enable its return to bond issuance in the fixed income markets by 2013. Ireland's initial progress toward funding in the bond market could be fragile, citing a possible future sovereign debt rating downgrade by the credit (rating) agencies; continuing weak demand and high unemployment within the domestic economy and a dramatic slowdown in exports due to the euro zone's regional problems." Moreover, according to the New Jersey-based financial channel CNBC, during the last few years there has been an escalating increase in the nation's emigration rate to levels not witnessed since the great exodus during the Irish potato famine of 1845-1852.

- As a recent guest lecturer on American Economic Policy at Harvard University, Congressional Budget Office (CBO) Director Doug Elmendorf explained to students: "If America maintains its current spending and tax policies, the federal budget deficit will be so large that federal debt will increase much faster than the size of the nation's economy. That cannot continue indefinitely: we must change our (economic) policies. Moreover, America cannot simply return to policies which it has followed in the past. Given the aging of the population and rising costs for health care, the combination of budget policies that worked in the past will not work in the future. Instead, we must adopt a new combination of policies which will be starkly different from our past policies … By the end of the present decade, unless America separates federal spending apart from Social Security and the major health care programs below the unusually low percentage of GDP it is already projected to reach, stabilizing the federal debt relative to GDP will require us to cut spending on Social Security and health care programs by about 25%, raise taxes by about 16.5%, or implement some combination of those approaches. That's the fundamental (budgetary) choice that America faces." Federal Government Revenues Projected and CBO's Baseline and Under the Alternative Fiscal Scenario (Percentage of GDP) – See chart below.

- In the most recent GoldMoney article, Alisdair Macleod asks: "Where is Greece's gold? Recently, there have been reports that if Greece defaults on the new bailout package, creditors will be entitled to seize her gold. Whether or not this is true, it raises one big question: given the severe financial and economic crisis in Europe, what is the current collective attitude of the euro zone banks to gold? … As central bankers mull over the point, they may well conclude that among all their troubles there is one more that must be avoided at all costs: the possibility of a gold run by the smaller central banks on their larger peers in the major bullion trading centres. It would be a consequence of the deepening crisis involving fiat money and credit and if this were allowed to occur, all confidence in paper money itself would be at risk."

- Front Page Headline, Mish's Global Economic Trend Analysis – "New York Cities Borrow from Pension Plan to Make Contributions. In the worst possible form of kicking the can down the road, at the worst possible time as well (given the lofty overvalued condition of the stock market), in order to make contributions to the New York Pension Fund, cities and municipalities borrow from it first. When New York State officials agreed to

- 

Source: Estimates from the Budget and Economic Outlook: Congressional Budget Office allow local governments to use an unusual borrowing plan to postpone a portion of their pension obligations, fiscal watchdogs scoffed at the arrangement, calling it irresponsible and unwise. Now, their fears are being realized: cities throughout the State, wealthy towns such as Southampton and East Hampton, counties like Nassau and Suffolk, and other public employers like the Westchester Medical Center and the New York Public Library are all managing their rising pension bills by borrowing from the very same $140 billion (U.S.) pension fund to which they owe money. Across New York, state and local governments are borrowing $750 million (U.S.) this year to finance their contributions to the State pension system, and are likely to borrow at least$1 billion (U.S.) more over the next year. The number of municipalities and public institutions using this new borrowing mechanism to fund their annual pension bills has tripled within a year. New York appears to be unusual in allowing public employers to borrow from the State's pension system to finance their annual contributions to that system. Defined benefit pension plans are going to bankrupt numerous cities and states. Several smaller cities have already declared bankruptcy over union salaries and pensions. Numerous other cities are on deck. Realistically speaking, numerous cities such as Los Angeles, Houston and San Diego are already bankrupt; as are second tier cities like Oakland, Newark, Cincinnati and Baltimore and others too numerous to list. They just have not admitted it yet. Simply put, pension promises have been made that cannot and will not be kept.

CLOSING LEVELS FOR FRIDAY, MARCH 2ND.		WEEKLY CHANGE
Dow Jones Industrial Average	12,977.57	– 5.38 points
Spot Gold Bullion (April)	$1,709.80 (U.S.)	– $66.60 per oz.
S&P / TSX Composite	12,643.82	– 81.95 points
10-Year U.S. Treasury Yield	1.97%	– 1 basis point
Canadian Dollar	101.15 cents (U.S.)	+ 1.12 cent
U.S. Dollar Index Future (Spot Price)	79.449 cents	+ 1.035 cent
WTI Crude Oil (April)	$106.70 (U.S.)	– $3.07 per barrel

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