

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS



Monday, March 19th

Statistics Canada reports the nation's wholesale trade declined by 1% in January, citing weakness in the auto sector and agricultural supplies industry

MONDAY, MARCH 19TH

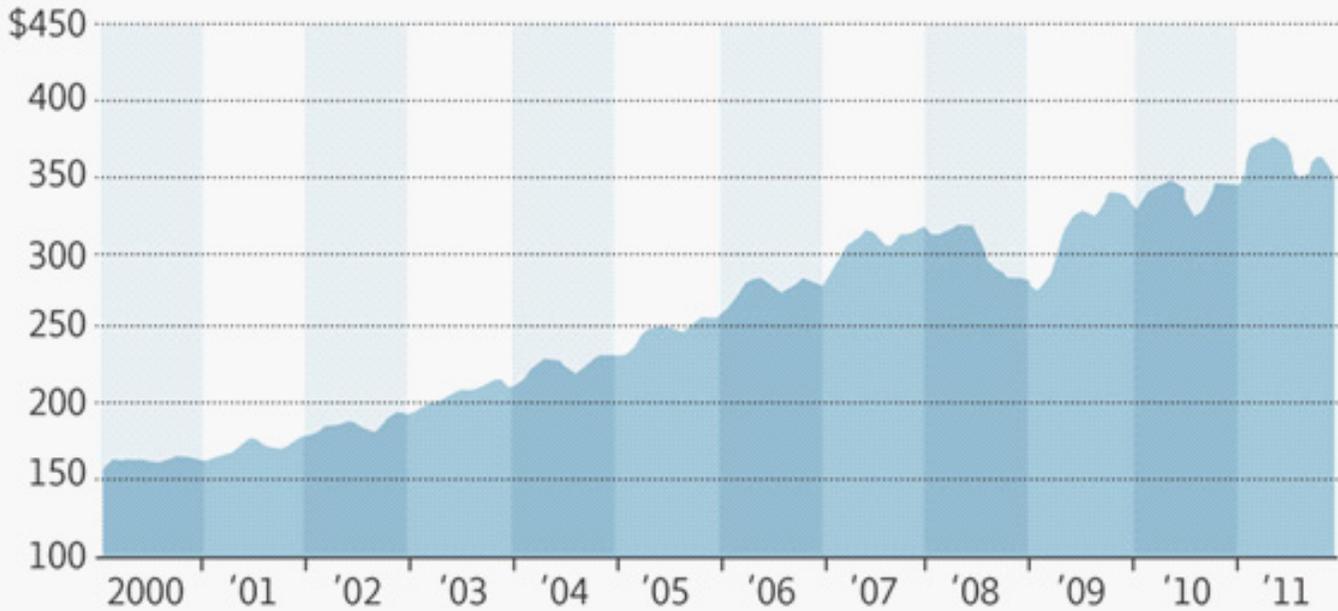
- Front Page Headline, Bloomberg News – “U.S. Economy Not Out of the Woods: Fed’s Dudley. In a speech in Melville, New York, Federal Reserve Bank of New York President William Dudley warns: ‘Signs the U.S. economy is improving don’t dispel risks to (economic) growth, which include higher gasoline prices, fiscal cutbacks and a weak housing market. The incoming U.S. economic data has been a bit more upbeat of late – partly as a result of inventory building – suggesting that the recovery may be getting better established. However, while these developments are certainly encouraging, it is far too soon to conclude that we are out of the woods in terms of generating a strong, sustainable (economic) recovery.’ Eric Green, chief economist at TD Securities in New York, commented: ‘Mr. Dudley’s comments reiterate a very dovish position among the leaders of the Federal Open Market Committee (FOMC); those setting the policy agenda. While the speech is consistent with the FOMC statement last week, it must also be seen as being more dovish, coupling progress on the economic front with uncertainty.’”
- Front Page Headline, Globe and Mail – “Australia Imposes New 30% Mining Tax. The Australian Parliament passes laws for a new 30% tax on iron ore and coal mine profits, following a bruising two-year battle with mining companies. The tax will affect about 30 companies, including global miners BHP Billiton, Rio Tinto and Xstrata PLC and aims to raise about \$10.6 billion (AUD) in its initial three years. The tax enactment, which is being closely watched by other resource rich countries, is designed to spread the benefits of Australia’s resources boom to other

sectors of the economy, by funding a cut in the corporate tax rate, higher contributions to pension funds and \$6 billion (AUD) of infrastructure spending. The Association of Mining and Exploration Companies, which represents small and mid-tier miners, condemned the tax. Association chief executive Simon Bennison warned: ‘The tax is simply unfair to smaller emerging miners and is so complex that the administrative and compliance burden on industry and government will be extreme. The introduction of this anti-competitive legislation in Australia will only (serve to) push investment capital offshore; and change our (nation’s) reputation as a safe place in which to invest.’” Trade figures for January reveal that exports to China declined by 23%, mainly as a result of weaker demand for coal and iron ore.

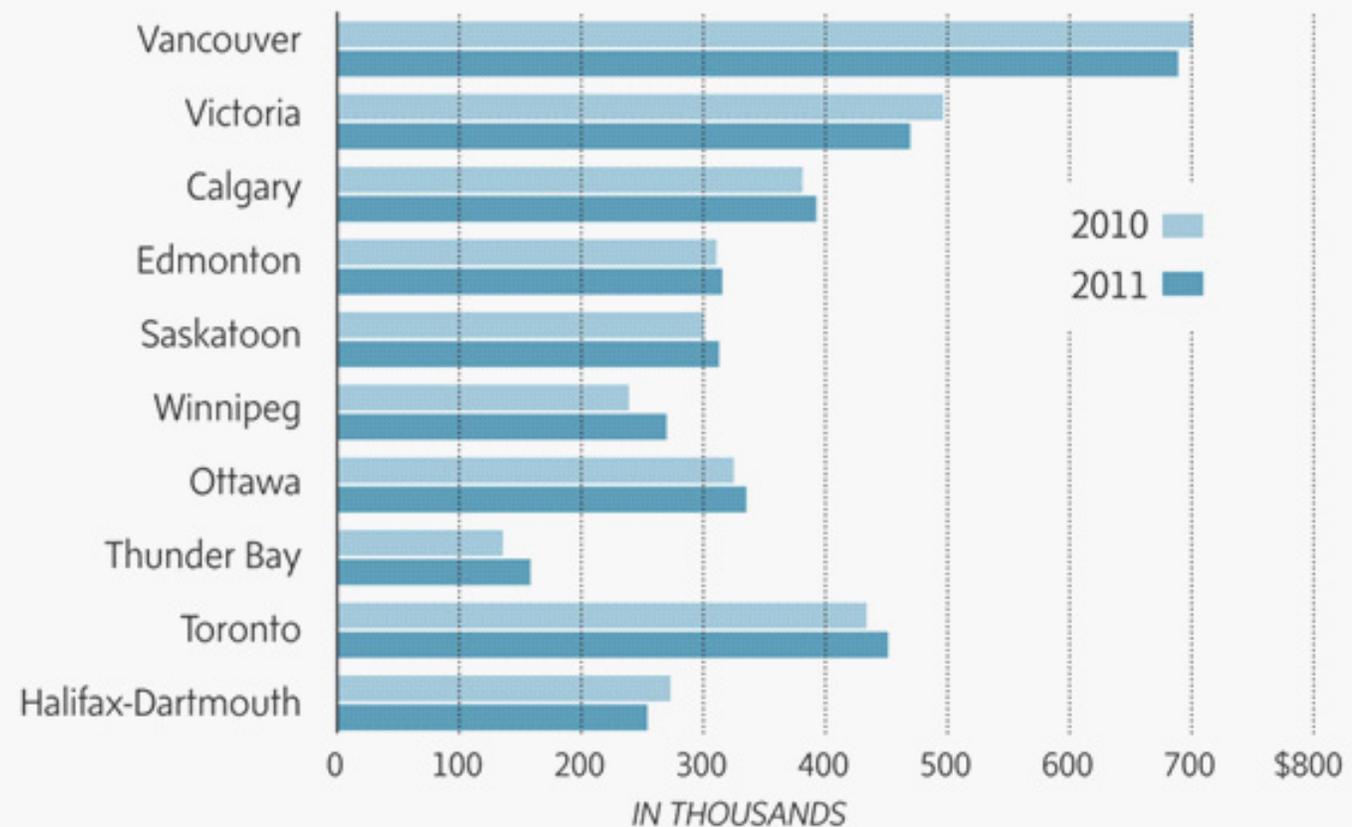
- Front Page Headline, National Post – “Risks to Global Economic Recovery Persist: IMF. In a weekend Beijing speech to Chinese policymakers and global business leaders, International Monetary Fund Managing Director Christine Lagarde cited: “There are still fragile financial systems burdened by high public and private debt persisting in advanced economies representing a major risk to global growth. Other growing threats include the rising price of oil and the likelihood of activity slowing in emerging economies over the medium term. Advanced economies must continue with macroeconomic support and a balanced fiscal policy; together with financial reforms to repair the damage done by the (credit) crisis and to improve competitiveness.”

AVERAGE CANADIAN RESIDENTIAL HOUSE PRICES

In thousands, not seasonally adjusted



AVERAGE SALE PRICE IN SELECT METRO AREAS



- Front Page Headline, Globe and Mail – “OSFI Revamps Mortgage Rules. The Office of the Superintendent of Financial Institutions, Canada’s banking regulator, has drafted new mortgage rules designed to ensure that banks collect detailed information about a potential mortgagor’s identity, background, and willingness and ability to pay their debts on time, before they approve a mortgage. Moreover, the proposed rules deal with the due diligence the banks must conduct on the value of the property to be mortgaged.”

TUESDAY, MARCH 20TH

- The National Bureau of Statistics reports of China’s 70 large and mid-sized cities monitored by the government, 45 experienced a decline in new home prices in February, compared with 48 in January. Prices in 21 other cities were stable, with just 4 cities experiencing price gains. Beijing has introduced a range of measures within the past year, aimed at curbing soaring property prices such as; bans on buying second homes, raising minimum down payments and introducing property taxes in selected cities. In a market letter, property analysts at EC Harris commented: “China’s property prices will likely continue their downward trend going into the second half of 2012 and until policies are altered ... possibly in the latter part of the year.”
- Front Page Headline, Financial Times – “Moody’s Downgrades Detroit’s Debt. Moody’s Investors Service downgrades \$2.5 billion (U.S.) of Detroit’s outstanding debt issues to B2 from Ba3, in a move that could allow the City’s counterparties to demand a termination payment of \$350 million (U.S.) over the next seven years, which would “further complicate the City’s ability to manage its cash flow over the medium to longer term,” according to Genevieve Nolan, a Moody’s analyst. “Detroit risks running out of cash by its fiscal year end on June 30th. unless it restructures some of its debt.”
- Front Page Headline, Financial Times – “U.S. Sets Tariffs for Chinese Solar Panels. The Obama administration has imposed tariffs of up to 4.73% on Chinese manufacturers of solar panel cells, judging that they benefited from unfair export subsidies, after a review that divided the U.S. solar industry. Jigar Shah, the founder of Sun Edison, commented: ‘This is an initial victory for the American solar industry and its 100,000 employees ... With these low tariffs, the Commerce Department basically came out and stated that China is not overly subsidizing solar.’

- The Commerce Department reports U.S. new housing starts declined by 1.1% to a seasonally adjusted annual pace of 698,000 units in February, compared to an upwardly revised rate of 706,000 units in January. Separately, building permits rose by 5.1% to an annual pace of 717,000 units, the highest level since October 2008.

WEDNESDAY, MARCH 21ST

- HSBC in Hong Kong reports China’s manufacturing Purchasing Managers’ Index declined to an initial reading of 48.1 in March from a final reading of 49.6 in February. Hongbin Qu, chief economist for China at HSBC, commented: “Weakening domestic demand continued to weigh on economic growth, as indicated by a slowdown in new orders, while employment recorded a new low since March 2009.”
- The National Association of Realtors reports U.S. existing home sales declined by 0.9% to an annual pace of 4.59 million units in February, following a revised pace of 4.63 million units in January
- Japan’s finance ministry reports the nation’s trade surplus rose by 6.5% to 32.9 billion yen (\$395 million U.S.) in February. Kohei Okazaki, an economist at Normura Securities in Tokyo, commented: “Today’s figures indicate that a recovery in exports will likely be sustainable.”
- Front Page Headline, Daily Telegraph U.K. – “George Osborne’s Support for Business Is Purely Symbolic: U.K. Budget 2012. In his budget speech, the Chancellor of the Exchequer stated: ‘The government is doing all it can under very difficult circumstances: by providing modern infrastructure, new (economic) growth-friendly planning rules and employment laws; and the kinds of schools and universities and colleges (that) our future work force needs. Meanwhile, our British businesses have the self-confidence to invest, expand, hire, innovate and be the best.’ If they do, however, it won’t be this year, according to the forecasts from the Office for Budget Responsibility (OBR). Last November, the OBR predicted business investment to grow by 7.6% in 2012. Now, companies are expected to manage just 0.7%; despite having a cash position estimated by some to be 750 billion pounds and squirreling away 70 billion pounds a year. OBR Chairman Robert Chote noted: ‘Not as much of that cash may be available for investment (purposes).’ Having unashamedly, backed business in his last two budgets, the Chancellor ... switched his focus back to households; as he tweaked the GDP growth forecast for this year up to 0.8% from 0.7%, but left the general economic outlook largely unchanged.”

THURSDAY, MARCH 22ND

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 5,000 to 348,000 in the week ended March 17th. while continuing claims fell by 9,000 to 3.35 million in the week ended March 10th. Those people who have exhausted their traditional benefits but are now receiving emergency or extended benefits declined by 16,000 to 3.31 million in the week ended March 3rd.
- The Office for National Statistics reports U.K. retail sales declined by 0.8% in February, following a revised increase of 0.3% in January which was previously reported as a gain of 0.9%. Howard Archer, an economist at IHS Global Insight in London, commented: "The data puts a real dent in hopes that the consumer may be increasing spending and tempers hopes that the GDP will see a relatively decent return to growth in the 1st. quarter. The concern is that consumers will be cautious in their spending for some time to come."
- The New York-based Conference Board's index of leading economic indicators – a gauge of the outlook for the next three to six months – rose by 0.7% in February, following a downwardly revised gain of 0.2% in January
- The Brussels-based European Commission (EC) reports its initial estimate of consumer confidence for March rose to a reading of minus 19 from a level of minus 20.3 in February, the highest reading since August 2011
- HSBC and Markit Economics report China's manufacturing purchasing managers' index declined to a reading of 48.1 in March, after a final reading of 49.6 in February
- The Nationwide Building Society reports its U.K. consumer confidence index declined to a reading of 44 in February, following a level of 47 in January
- Front Page Headline, The Slog – "The Rain in Spain Darkens the Mood in Berlin. The 360 basis point yield spread between 10-year Spanish bonds – trading at a yield of 5.51% – and Deutsche bunds is the widest it's been since mid-February. U.S. Fed Chairman Ben Bernanke says that's O.K. because he has done his bank stress tests. However, German bankers think the Fed Chairman is too optimistic." Spanish bond yields are rising as investor concerns are growing not only, about the country's banks, but also, whether the Spanish government will need a financial bailout.

- Statistics Canada reports the nation's retail sales rose by 0.5% in January, citing stronger automobile and auto parts sales. Benjamin Reitzes at BMO Capital Markets Economics commented: "Canadian retail sales continue to lose momentum. High household debt levels and weak employment growth suggest this trend will persist through early 2012."
- The Conference Board of Canada reports its consumer confidence index rose to a reading of 79.5 in March from a level of 75.2 in February, citing the index remains vulnerable since most of the gain was due to a single factor – consumer attitudes towards major purchases
- Front Page Headline, Daily Telegraph U.K. – "Rating Agencies Deemed Deficient: ESMA. Credit Rating Agencies Moody's Investors Service, Standard & Poor's and Fitch ratings have been instructed to improve internal processes or face possible enforcement from the European Securities and Markets Authority. A critical report resultant from the first examination of the credit rating market by the regulator discovered that the companies were deficient in seven areas. The ESMA report will likely come as a major concern to the three agencies, as it identified shortcomings in:
 1. The recording of internal meetings
 2. The adequacy of resources, including staffing, devoted to the analytical business
 3. Disclosure of rating methodologies
 4. Process for the disclosure of ratings actions
 5. The timing of the distribution of documents prior to rating committee meetings
 6. Internal control functions and the agency's independent directors
 7. The IT environment, particularly security concerns regarding the input of third parties

The regulator allowed that it had not decided whether any of the shortcomings constituted a breach of its rules. However, the ESMA warned that its report was published "without prejudice to the possibility of further investigations which could lead to enforcement or supervisory actions."

FRIDAY, MARCH 23RD

- The Canadian Real Estate Association (CREA) reports its Housing Price Index rose by 5.1% on a year-over-year basis in February, the smallest annual gain since June 2011. February was also the fourth consecutive month in which Canadian house price increases moderated.

- The Commerce Department reports U.S. new home sales declined by 1.6% to an annual pace of 313,000 units in February. Michele Meyer, an economist with the Bank of America in New York commented: "There are signs of life in the (housing) market in certain regions, but we're not seeing a broadly-based recovery. Builders are still competing with existing inventories. The spring season may show some modest improvement, but it will be limited."



New home construction in Dublin, California
 Source: David Paul Morris / Bloomberg

- Front Page Headline, Bloomberg News – "BOE Seeks Financial Stability Tools. The Bank of England's Financial Policy Committee (FPC) conveys a recommendation to the U.K. government regarding the tools it needs to help strengthen banks. "Immediate financial market tensions have subsided somewhat, but the overall outlook for financial stability remains fragile. While the European Central Bank's (ECB) recent 3-year loans have helped bank funding costs, questions remain about the indebtedness and competitiveness of some European countries. The FPC is asking Parliament to give it powers of direction over countercyclical capital buffers, sectoral capital requirements and leverage ratios. Systemic risk could arise from excessive balance sheet leverage and fragile funding positions, excessively loose terms and conditions of lending and fragilities in market structures. These tools would provide control most directly over the balance sheets of a range of financial institutions, such as banks, building societies, investment firms and insurers. The FPC also recommends that banks raise more capital as early as is feasible."

CLOSING LEVELS FOR FRIDAY MARCH 23RD.

WEEKLY CHANGE

Dow Jones Industrial Average	13,080.73	– 151.89 points
Spot Gold Bullion (May)	\$1,662.40 (U.S.)	+ \$6.60 per oz.
S&P / TSX Composite	12,465.66	– 31.30 points
10-Year U.S. Treasury Yield	2.24%	– 5 basis points
Canadian Dollar	100.24 cents (U.S.)	– 0.62 cent
U.S. Dollar Index Future (Spot Price)	79.316 cents	– 0.465 cent
WTI Crude Oil (May)	\$106.87 (U.S.)	– \$0.19 per barrel

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