

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



Monday, April 9th

Front Page Headline, Nikkei News – “Sony to Eliminate 10,000 Jobs, 6% of Work Force. As yet unconfirmed by the Japanese electronics maker, Sony – which has forecast a 4th. consecutive annual net loss – will soon announce the layoffs, directed by new

MONDAY, APRIL 9TH

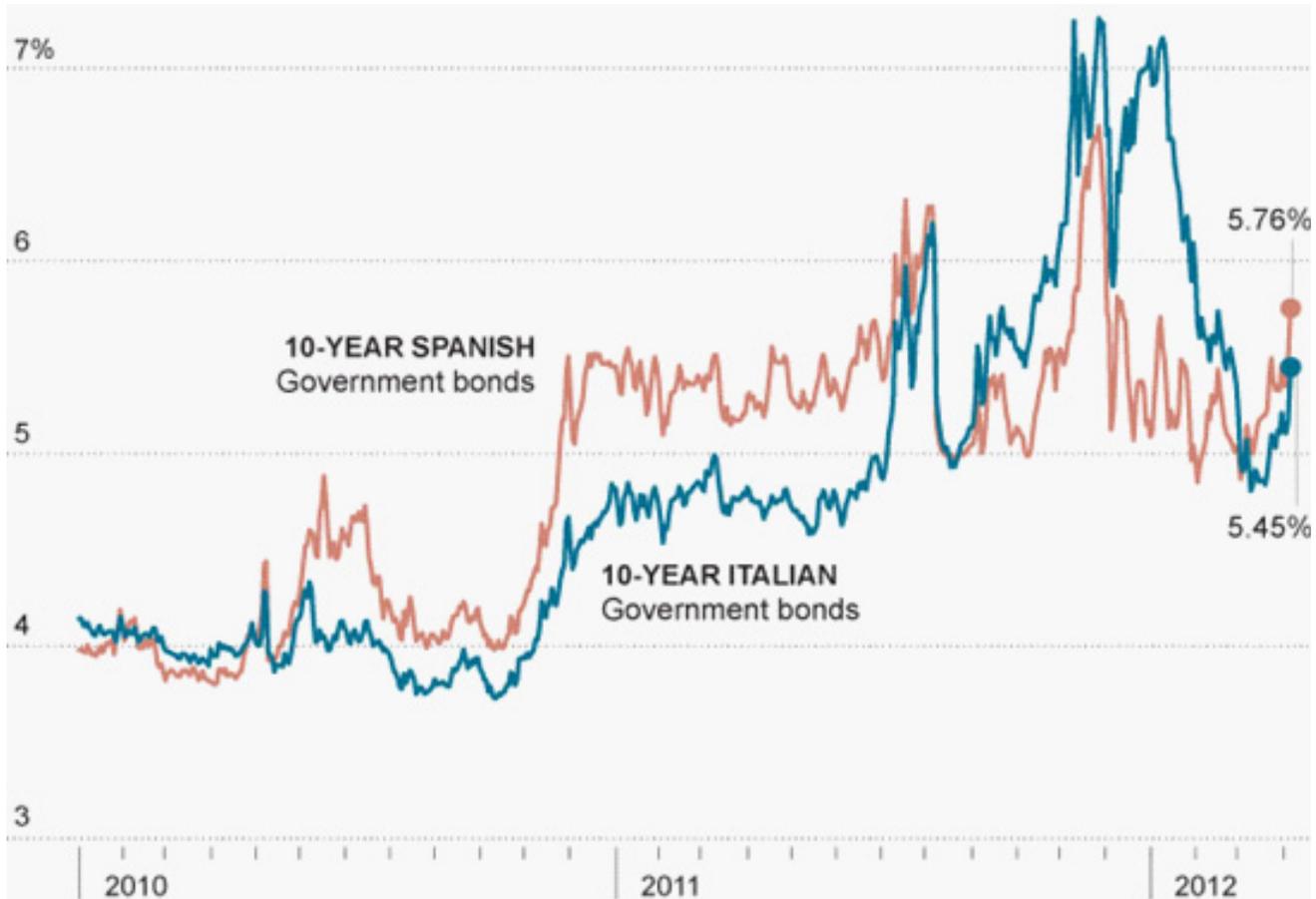
Chief Executive Officer Kazuo Hirai, who has vowed ‘painful’ steps to return the company to profitability, while facing stiff competition from Samsung Electronics and Apple Inc.”



Sony's new CEO Kazuo Hirai Source: Yuriko Nakao / Reuters

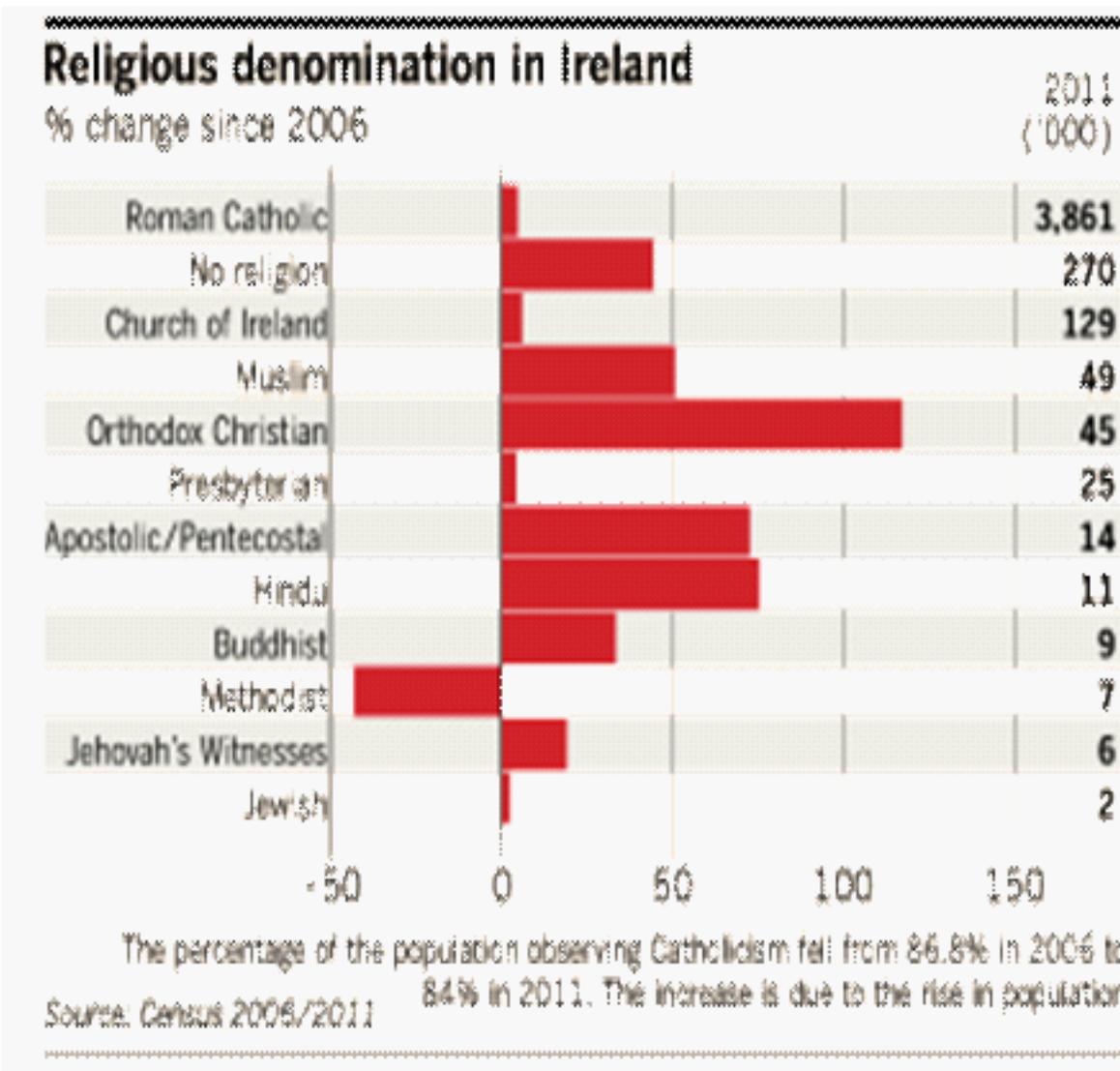
- The Ministry of Finance reports Japan registered a current account surplus of 1.18 trillion yen (\$14.5 billion U.S.) in February, following a record deficit recorded in January. Yoshimasa Maruyama, chief economist at Itochu Corp. in Tokyo, commented: “There is no doubt that the yen is still too strong for companies to become optimistic (about exports). The Bank of Japan must be mindful of the recent yen appreciation, which leads to less investment and weak (economic) growth.”
- The National Bureau of Statistics reports China’s consumer price index (CPI) rose by 3.6% in March on a year-over-year basis, following a 3.2% increase in February. Separately, China’s producer price index (PPI) – a gauge of wholesale prices – declined by 0.3% over the same period.
- The Hellenic Statistical Authority (Elstat) reports Greece’s industrial production declined by 8.3% in February on a year-over-year basis, following a revised decline of 6% in February, citing weaker demand for Greek export products. The European Commission (EC) expects Greece’s gross domestic product (GDP) to decline by 4.7% in 2012, its 5th. consecutive year of economic contraction.
- Front Page Headline, New York Times – “Investors Nervous Over European Bank Sovereign Debt Holdings. Warning lights are blinking again in Spain and Italy – the two European Union (EU) countries considered most susceptible to demanding austerity measures – amid new data revealing that their domestic banks have been increasing the size of their respective sovereign debt portfolios. In a recent update to clients, Credit Suisse noted: ‘Banks are lending to their governments, but apparently not to businesses. Spanish banks are already holding substantial quantities of troubled mortgages following the bursting of the nation’s housing bubble.’ Spain’s 10-year bond auction of last week only attracted buyers for 75% of the issue size, with the yield level climbing to 5.76%, up from 4.5% in January.”

Rising Yields on Spanish and Italian Government Bonds



TUESDAY, APRIL 10TH

- The General Administration of Customs reports China recorded a trade surplus of \$5.35 billion (U.S.) in March, citing a broadly based weakness in exports. In a note to clients, analysts at Capital Economics stated: “China’s non-commodity imports have been down sharply since November, indicating soft underlying domestic demand, while manufacturing related imports were generally flat, implying that exporters have low expectations for future orders growth.”
- The Federal Statistics Office in Wiesbaden reports German exports rose by 1.6% in February on a seasonally adjusted basis, citing higher foreign demand from outside Europe: “German companies are relying on markets with higher economic growth rates than the euro zone to boost exports, as European governments generally cut spending to reduce budget deficits.”
- Front Page Headline, Financial Times – “Dublin to Weaken Roman Catholic Church Rule in Schools. Dublin plans to remove hundreds of schools from the control of the Roman Catholic Church to reflect Ireland’s increasingly diverse population, in the biggest reorganization of its education system in almost a century. Nine out of ten of the 3,169 primary schools in Ireland are controlled by the Catholic Church under a patronage system introduced in 1831. Ruairi Quinn, Ireland’s Minister of Education, announced: ‘This is the most radical change in primary education in Ireland since the State was founded in the 1920s. This is about responding to the growing diversity of the Irish population and giving parents and children a choice.’ The proposals are introduced amid a bitter debate about the role of the Catholic Church in Irish Society, prompted by revelations of clerical child sex abuse and subsequent cover-ups by Catholic Church authorities. Also, they follow a sharp increase in the number of foreign-born residents – who now account for 17% of the Irish population, up from 6% in 1991 – as well as a growing secularization of society.”



- France's National Statistics Office, Insee, reports the nation's factory production declined by 1.2% in February. Separately, business confidence among French manufacturing executives remained unchanged at a reading of 95 in March, following a decline in February. Michel Martinez, an economist at Societe Generale SA in Paris commented: "While France doesn't have the problems of its southern neighbours, its industry remains in recession and we remain very far (removed) from a classic (economic) recovery scenario."
- Front Page Headline, The Slog – "Brussels Bringing Turkey into the EU under the Radar. A European Union 'working group' has recently approved a proposal to grant Turkish citizens the same residency and labour rights in Europe as existing EU citizens. The proposal specifically adds that : 'A first package with simi-

lar proposals in respect of Algeria, Morocco, Tunisia, Croatia, Macedonia and Israel was adopted by the Council in 2010' and this will also be updated to bring it into line with the Turkish proposals."

- Front Page Headline, Business Insider – "Rick Santorum Suspends His Presidential Candidate Campaign. Santorum suspended his campaign after a raucous primary season in which he came from nowhere to barely defeat Romney in the Iowa caucuses."

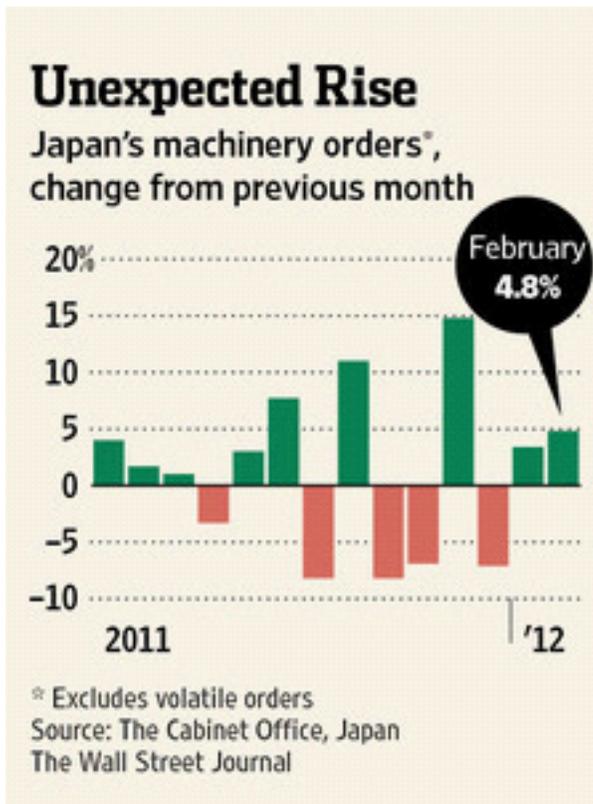


Rick Santorum

Source: Gage Skidmore via Flickr

WEDNESDAY, APRIL 11TH

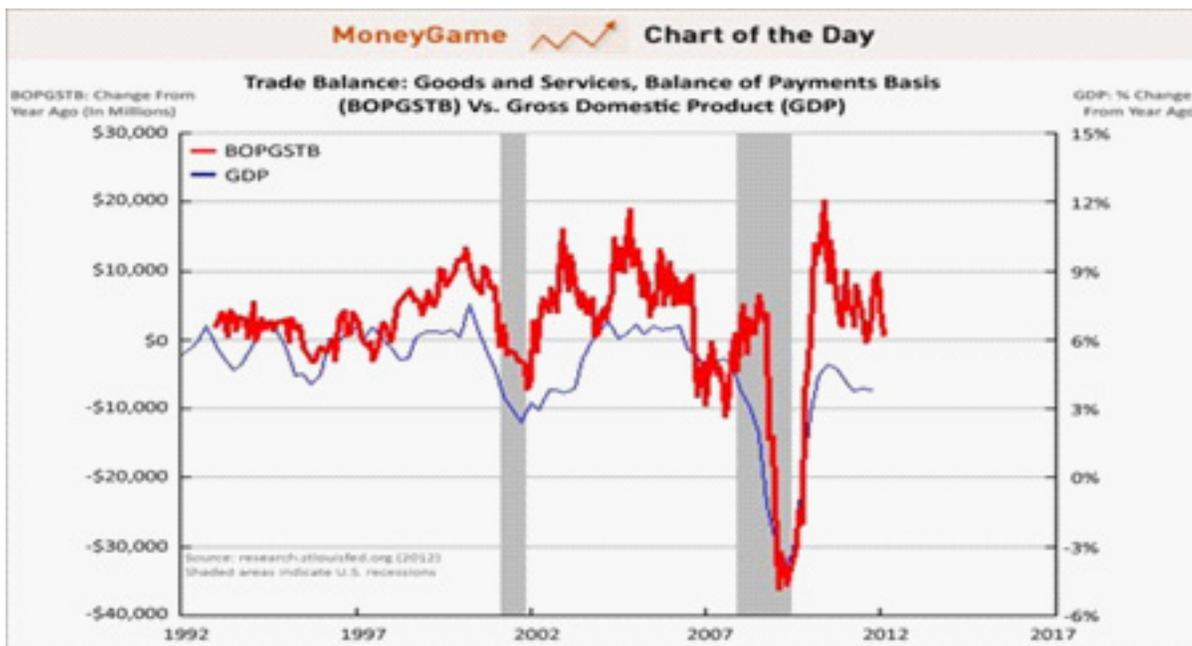
- The Cabinet Office reports Japan's machinery orders rose by 4.8% in February, citing the second consecutive month of an increase in capital spending, led by the food, chemical oil and coal product industries. Takashi Shiono, an economist at Credit Suisse in Tokyo commented: "The domestic demand for machinery is basically consistent with the moderate recovery in consumption. We expect orders to continue rising for another two to three months."



- The Labor Department reports U.S. import prices rose by 1.3% in March, citing higher costs for fuel and industrial metals, the biggest increase since April 2011
- The British Retail Consortium (BRC) reports U.K. retail same store (open for at least one year) sales rose by 1.3% in March on a year-over-year basis, citing higher demand for food and clothing. BRC Director General Stephen Robertson commented: "The warm weather in March was a help, but ... the overall retail environment is still difficult."
- Canada Mortgage and Housing Corp. (CMHC) reports the nation's housing starts increased to 215,600 units on a seasonally adjusted annual basis in March, up from 205,300 in February. Peter Buchanan, an analyst with CIBC World Markets, commented: "Although we expect housing starts to soften in due course, the latest figures suggest that, for the time being, the housing sector still has a considerable amount of energy, aided by low mortgage rates."
- Front Page Headline, Wall Street Journal – "German Bund Auction Strikes Record Low Yield. The Bundesbank auctions 4.109 billion euros of 10-year German government bonds at a record low average yield of 1.77%; but representing only about 80% of the desired size of the new issue."
- The Westpac-Melbourne index of Australian consumer sentiment declined to a reading of 94.5 in April, following a level of 96.1 in March, the lowest reading since August 2011. Westpac chief economist Bill Evans commented: "The list of worries for Australian consumers includes concerns over job security, house prices, high debt levels, gas prices, utility costs and uncertainty over the imminent introduction of a tax on carbon emissions. Apart from last year's lows and the March 2008 to May 2009 period ... we have to go all the way back to 2001 ... to find sustained lower readings."
- Front Page Headline, Financial Times – "IMF Warns of Emerging Investment Threat. In its latest Global Financial Stability Report, the International Monetary Fund warns: 'Sovereign debt crises are reducing the number of governments which investors trust to issue risk-free bonds, just as new financial regulations are increasing demand for safe securities from banks. Safe asset scarcity could lead to higher short-term volatility, herding behavior and runs on sovereign debt ... there will be rising demand for safe assets, but fewer of them will be available, increasing the price for safety in global markets.'

THURSDAY, APRIL 12TH

- Front Page Headline, Globe and Mail – “WTO Sees Global Trade Subsiding in 2012. The World Trade Organization forecasts: ‘Global trade growth will subside for a second consecutive year to 3.7%, but severe downside risks could force it even lower this year, compared to the 20-year average of 5.4.’ World trade growth slowed to 5% in 2011 from 13.8% in 2010, and is provisionally expected to rebound to 5.6% in 2013.”
- The Labor Department reports U.S. initial claims for state unemployment benefits increased by 13,000 to a seasonally adjusted 380,000 in the week ended April 7th. while continuing claims declined by 98,000 to a seasonally adjusted 3.25 million in the week ended March 31st. Those people who have exhausted their traditional benefits, but are now receiving emergency or extended benefits under federal programs numbered about 3.7 million in the week ended March 24th.
- Statistics Canada reports the nation’s trade surplus narrowed significantly to \$292 million (CAD) from a revised \$1.95 billion (CAD) in January, citing a 3.5% decline in exports led by the natural resource and automobile industries
- The Commerce Department reports America’s trade deficit narrowed by \$6 billion (U.S.) to \$46 billion (U.S.) in February, citing a 2.7% drop in imports to \$227.2 billion (U.S.) which included declines in imports from the European Union and China of 30% and 26%, respectively.
- Front Page Headline, Bloomberg News – “Europe Remains Primary Risk to Global Economic Growth. In a Washington speech, International Monetary Fund (IMF) Managing Director Christine Lagarde warns: ‘The main risk to global economic growth is a return of Europe’s (sovereign) debt crisis. Risks may not be as large as estimated earlier this year, but let us make no mistake, the (austerity) risks and (financial) needs are still sizeable and it would be very imprudent to ignore that fact. A recent move by European governments to increase their crisis defenses is only part of the solution. Hopefully, I will see some progress on my pledge to increase IMF resources when member countries meet in Washington next week. However, I do plan to reduce the amount of additional resources I am seeking, if risks to the global economy diminish.’”
- Statistics Canada reports its new housing price index rose by 0.3% in February, following an increase of 0.1% in January, citing gains in the Toronto and Oshawa markets being slightly offset by a modest decline in Vancouver
- Front Page Headline, Daily Telegraph U.K. – “Decades of Spending Cuts and Tax Increases Ahead: OECD. In a new study, the Organization for Economic Cooperation and Development warns: ‘The coalition government’s current austerity program will not be enough to bring U.K. debt down to prudent levels. Despite the coalition’s five year program of spending cuts and tax increases, the national debt will increase from 72% of gross



domestic product (GDP) this year to 76% in 2014-15. The debt level will likely peak at 1.5 trillion pounds in 2015-16. For Britain to hit a long-term goal of reducing the debt level to 50% of GDP, will require austerity measures equal to about 8% of the economy. That represents about 126 billion pounds, roughly equal to the current austerity package. However, the costs arising from the recent financial crisis and economic downturn will be relatively mild compared to the long-term costs of an aging population. Spending pressures, principally from health and long-term care will continue to mount. Because higher taxes adversely affect economic performance, a large part of any future debt reduction work should come from cuts in spending.”

FRIDAY, APRIL 13TH

- The Thomson Reuters/University of Michigan preliminary index of consumer sentiment declined to a reading of 75.7 in April, following a level of 76.2 in March; while the index of current conditions fell to a reading of 80.6 from a level of 86 over the same period
- The Labor Department reports the U.S. Consumer Price Index (CPI) rose by 0.3% in March, following a 0.4% increase in February. The core rate, which excludes the more volatile costs of food and energy, rose by 0.2%. Michael Carey, chief economist for North America at Credit Agricole CIB in New York, commented: “Inflation is going to be slowly decelerating, as the energy price impulse that we’ve been experiencing begins to fade. The U.S. Federal Reserve is in a wait and see mode ... and is more concerned about economic growth and the labor market.”
- The Office for National Statistics reports the U.K. producer price index (PPI) rose by 0.6% in March, citing “price gains in six out of 10 categories. The biggest increases were in petroleum products, tobacco and alcohol. On a year-over-year basis, producer prices rose by 3.6%, compared with a 4.1% increase in February.”
- The National Bureau of Statistics reports China’s home sales declined by 18% to 709.9 billion yuan (\$112.7 billion U.S.) in the 1st. quarter on a year-over-year basis; while the nation’s gross domestic product (GDP) grew by 8.1% from the same period a year ago. Fred Hu, Chairman of Primavera Capital, a Beijing-based private equity firm, commented: “For now, the government wants to maintain a hard line by maintaining property curbs. Sooner or later, they will have to bow to reality if they don’t want to have a prolonged economic downturn.”
- Front Page Headline, Wall Street Journal – “Spanish Banks’ Borrowings from ECB Jolt Bond/Stock Markets. New data released by the Bank of Spain reveals gross daily borrowings by Spanish banks from the European Central Bank averaged 316.3 billion euros (\$417.10 billion U.S.) in March, up from 169.86 billion euros in February and 106.3 billion euros in November. This means that Spanish banks account for nearly 28% of the 1.1 trillion euros loaned by the ECB across the euro zone. Kathleen Brooks, an analyst at Forex.com in London warned: ‘This is a massive red flag. Without the ECB, the Spanish banking sector would have to be nationalized to prevent its collapse ... which would probably cause Spain’s government to require a bailout.’ The data contributed to a selloff in Spanish financial markets. Spain’s benchmark IBEX-35 stock index declined by 3.6% to close at 7,250.60, while the yield on Spain’s benchmark 10-year government bond rose by 18 basis points to 6.00%, close to a four-month high.”
- Front Page Headline, Daily Telegraph U.K. – “S&P Confirms U.K.’s ‘AAA’ Credit Rating as Stable. Standard and Poors indicated its support for the Chancellor’s deficit reduction plans and noted: ‘Britain’s wealthy and open economy improves its capacity to absorb shocks. However, such (austerity) policies will limit (economic) growth over the next few years, as household spending would also be hit by limited wage growth, rising unemployment and a weak housing market.’ Chancellor of the Exchequer George Osborne responded: ‘S&P’s decision is a reminder that without (austerity) measures, Britain would be led into an economic catastrophe. Britain is weathering the international debt storms because of the policies the government has adopted and adhered to in tough times.”
- Front Page Headline, Wall Street Journal – “Private Debt Likely to Weigh on Economic Growth for Years. In an op-ed, reporter Matthew Dalton postulates: While public debt has received most of the spotlight since the European sovereign debt crisis erupted over two years ago, private sector debt is arguably a more intractable problem. In the euro zone, particularly, governments appear unlikely to embrace bold policies which would ease the burden on the economy. The origin of the private debt problem is mortgages ... Countries that experienced a sharp increase in household debt will endure a sharper decline in consumption after a housing bust, than countries where the debt levels haven’t risen as fast. If you borrowed a lot of money to buy your house, then prices fell soon afterwards, you are most likely to prioritize the repayment of the mortgage.”

Debt-Burdened to Debt-Light

2010 household debt as a percentage of income for selected countries

Change from 2008

Denmark

268%

+6
percentage points

Netherlands

249

+19

U.K.

143

-11

Germany

89

-2

Italy

65

+7

Source: Eurostat

The Wall Street Journal

- Front Page Headline, The Slog – “Main Greek Political Parties Struggle for Support. Athenian friends have forwarded the latest support figures for Greek political parties from a poll by Public Issue, suggesting that New Democracy is at 19%, while PASOK is at 14.5%. Combined, the two big party machines won't win an absolute majority of seats in the Athens Parliament on May 6th. ... In short, the new Greek Assembly is going to be something of a 'dog's breakfast' with a majority against the recent (financial) bailout.”

CLOSING LEVELS FOR FRIDAY, APRIL 13TH.		WEEKLY CHANGE
Dow Jones Industrial Average	12,849.59	– 210.55 points
Spot Gold Bullion (June)	\$1,660.20 (U.S.)	+ \$30.10 per oz.
S&P / TSX Composite	12,040.39	– 62.72 points
10-Year U.S. Treasury Yield	1.98%	– 8 basis points
Canadian Dollar	100.16 cents (U.S.)	– 0.13 cent
U.S. Dollar Index Future (Spot Price)	79.877 cents	+ 0.038 cent
WTI Crude Oil (June)	\$102.83 (U.S.)	– \$0.48 per barrel

Ian A. Gordon, The Long Wave Analyst www.longwavegroup.com

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