Monday April 16th, 2012

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

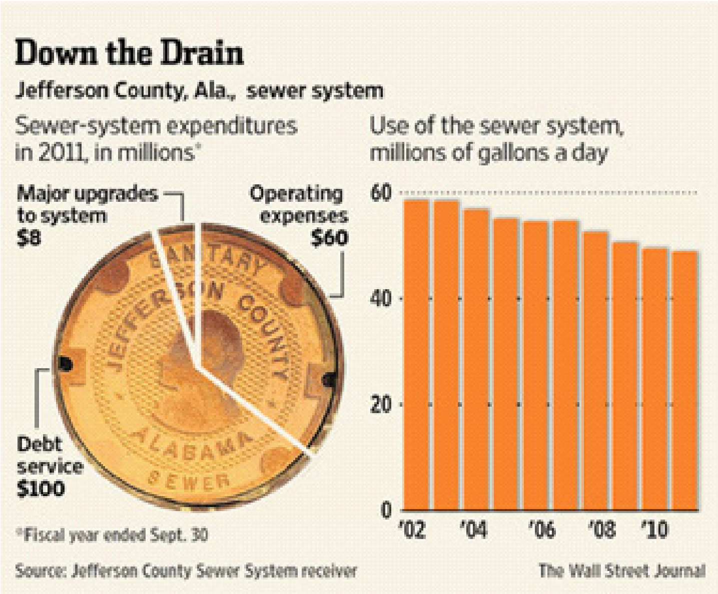
THAT WAS THE WEEK THAT WAS

Monday, April 16th

The Commerce Department reports U.S. retail sales rose by 0.8% in March, citing higher consumer demand for automobiles, furniture , clothes and electronics

MONDAY, APRIL 16TH

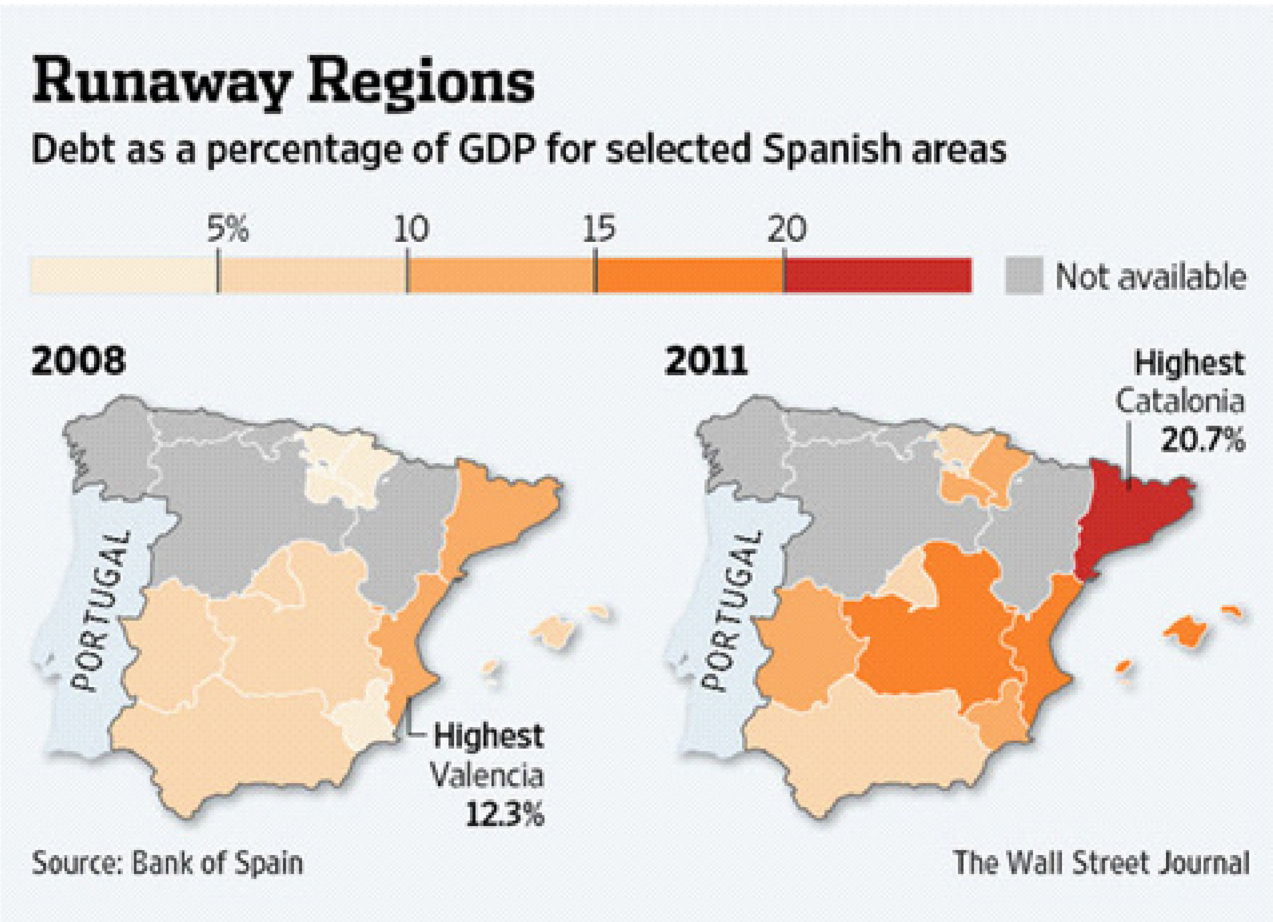
- Front Page Headline, Wall Street Journal – "Alabama Bond Fight Begins New Round. A federal judge is weighing whether officials of bankrupt Jefferson County can divert monies that normally would service outstanding debt held by J.P. Morgan Chase & Co. and other bondholders, in order to repair and upgrade its leaky sewer system. The case could have far-reaching implications for the American $3.7 trillion (U.S.) municipal bond market. Hugh McGuirk, head of municipal investments at T. Rowe Price, commented: "If Jefferson County can step in through bankruptcy and interrupt the flow of funds to bondholders, that would shake the confidence of a lot of (fixed income) investors." The dispute over Jefferson County's sewer revenues is the latest skirmish in the 5-month old bankruptcy case, in which nearly every technicality has been challenged by one side or the other. Matt Fabian, Managing Director at Municipal Market Advisors exclaimed: "It's about as ugly as it could possibly be. The County has been taking an incredibly aggressive stance."



- The Federal Reserve Bank of New York's Empire State Index for manufacturing declined to a reading of 6.6 in April, following a level of 20.2 in March. Milan Mulraine, a U.S. strategist with TD Securities in New York commented: "The outlook for manufacturing still remains positive, but it's not accelerating. The (current) slowdown in global (economic) growth is preventing the manufacturing (sector) from expanding further."

- The Canadian Real Estate Association reports average house prices in Toronto soared by more than 10% in March from March/11; while Vancouver house prices fell by 3.1% as existing home sales volume declined by 22.3% through the first three months of 2012

- Front Page Headline, Wall Street Journal – "Pressure Mounts on Spain for Next Bond Auction. With a government bond auction scheduled for Thursday, Spain warns it could seize control of finances in regional governments, as the country struggles to reduce its budget deficit and restore investor confidence. While the Spanish economy regresses into its second recession in two years, concerns are mounting that tough austerity measures could send the domestic economy into an extended downward spiral. The yield on Spain's 10-year bond closes at 6.03%, exceeding 6% for the first time since December. Spain's regions enjoy a large degree of autonomy, but are largely financed by taxes collected by the central government. Legislation, expected to become law by the end of April, would allow Madrid to make automatic spending cuts in regions that breach budget targets, as well as give the central government power to take over regional finances. Prime Minister Mariano Rajoy informed business leaders: "While Spain has lost the trust of financial markets, I am asking for more time to see the results of deep budget cuts, a labour market overhaul and a new plan to restore Spain's ailing banks. Nobody can expect that deep-seated problems be solved in just a few weeks."



- Front Page Headline, National Post, - "Europe Is Committing Economic Suicide: Krugman. In a New York Times op-ed, economist Paul Krugman warns: 'Europe has experienced several years of harsh austerity programs, and the results are what students of history told you would happen: such programs push depressed economies even deeper into depression. Right now, Europe has chosen austerity and that choice is clearly showing that Europe is carrying out economic suicide,"

- Front Page Headline, National Post- "Russians Follow Chinese Into Canada's Oil Sands. Rosneft, Russia's largest oil company, has purchased a stake in the Cardium tight oil play as part of a landmark alliance with Exxon Mobil Corp. The Russian giant joins China's top oil companies, several American oil companies and a number of European oil companies in establishing a Canadian presence. All are producing, or learning to produce oil and gas from technologically challenging unconventional plays – from tight oil, to shale gas, to the oil sands. Similar to deals involving Chinese companies on properties in Western Canada, the American/Russian pact will involve transferring information how to develop Rosneft's own vast reserves of tight oil trapped in non-porous rocks like shale at three of its biggest fields in western Siberia. Exxon Mobil spokesman Alan Jeffers elaborated: "Generally, all the North American assets that Rosneft has farmed are designed to help develop technologies for use in unconventional reservoirs in Russia."

- Front Page Headline, Globe and Mail – "China Unleashes the New Yuan/Renminbi. In a shift that could lead to a reshaping of the global economy, China's government has loosened the tether on its currency, signaling the determination of the country's leaders to make the yuan/renminbi a rival to the U.S. dollar. The People's Bank of China will now allow the value of the Chinese currency to rise or fall by a 1% range from the price it sets at the start of each trading day, compared with the 0.5% previous range. On the premise that the value of the yuan/renminbi rises against other currencies, China's growing middle class will have greater purchasing power to buy foreign goods, which could provide some new energy to the struggling economies of Europe and the United States. Notably, the Chinese leadership has long promised to initiate more free-market oriented economic policies, but hasn't always followed through with action." See also, Economic Winter, April 10, 2012 – China's Renminbi: The World's Next Reserve Currency?

- Front Page Headline, Washington Post – "GSA Scandal: Jeff Neely Declines to Testify. The man at the center of the of the scandal embroiling the U.S. General Services Administration, declines to testify at the first of three scheduled congressional hearings about why GSA officials authorized more than $800,000 (U.S.) in expenditures for a Las Vegas conference in October 2010. Members of the House Oversight and Government Reform Committee voiced outrage at the spending scandal which led to the removal of top agency officials and the temporary removal of several career top staffers. Committee Chairman Darrell Issa (R-Cal.) noted it was the first time in his congressional career that a witness had declined to testify based upon Fifth Amendment constitutional privilege."

Former Public Building Regional Commissioner
Source: Washington Post

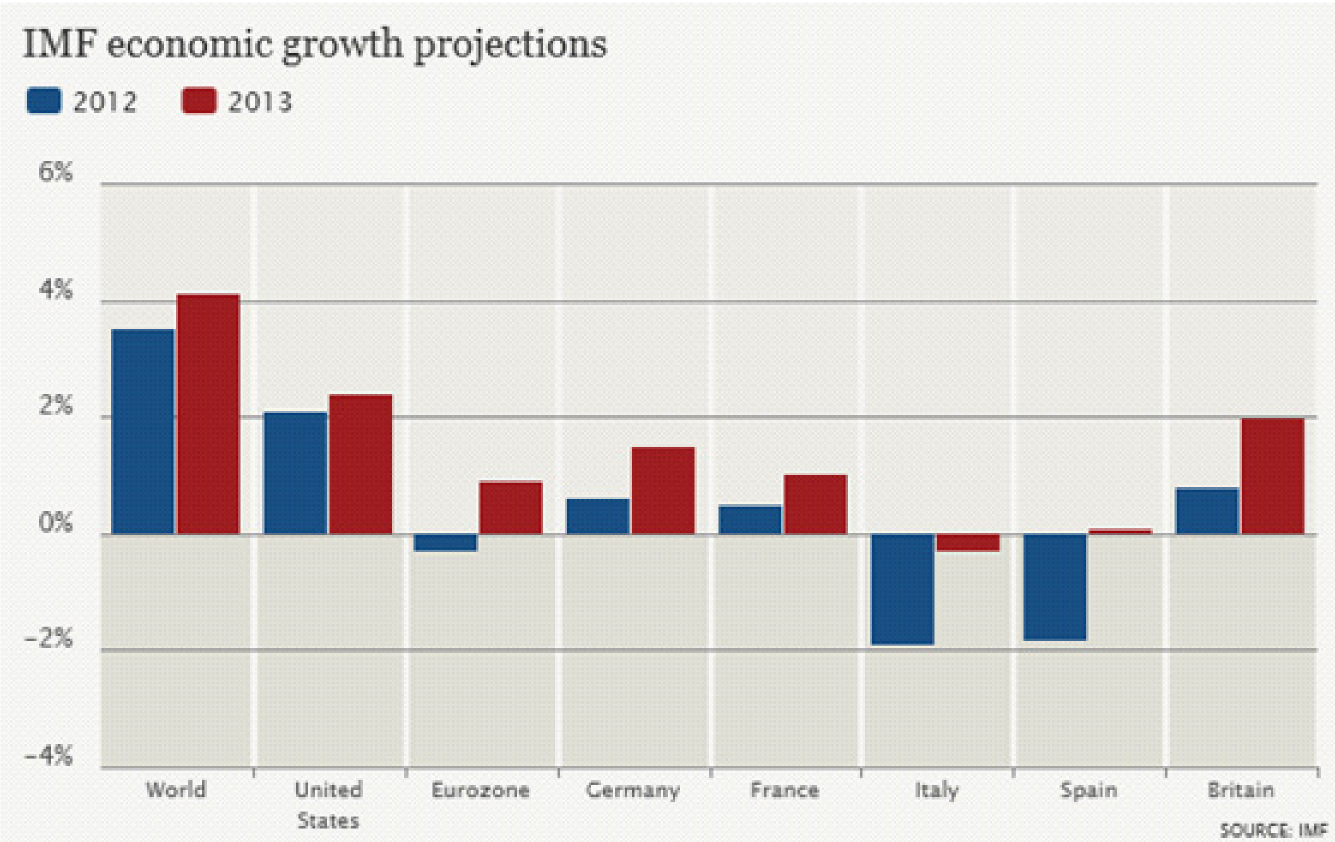
TUESDAY, APRIL 17TH

- Data from the Federal Reserve indicates U.S. factory production declined by 0.2% in March, citing reduced output by furniture and appliance manufacturers

- The European Union's statistics office in Luxembourg reports the EU's annual inflation rate remained unchanged 2.7% in March, citing continuing high energy prices

- Front Page Headline, Globe and Mail – "Canadian Recovery Moderate but Risks Remain: IMF. In a new forecast, the International Monetary Fund's spring global economic outlook predicts the Canadian economy will expand by 2.1% this year and by 2.2% in 2013 – an upgrade from January's 1.7% and 2% predictions. The IMF also warns: 'In Canada, the (economic) recovery is well advanced with room for policy makers to respond flexibly to changes in the economic outlook; including by allowing full operation of automatic fiscal stabilizers and resorting to stimulus should the (economic) recovery threaten to falter. Meanwhile, we view the downside risks to the U.S. and Canada outlook as significant. There are heightened fears that political instability in the Middle East could result in a spike to oil prices, political gridlock in Washington could tie the hands of policy makers and that emerging nations might underperform against expectations. In Canada, the housing market is an area of potential vulnerability, with high house prices and rising household indebtedness. Strong spillovers to Canada from the United States mean it is also exposed to the risks of a re-emergence of the European debt crisis and a weaker (economic) recovery in the U.S."

- Front Page Headline, Daily Telegraph U.K. – "Britain Faces 50 Billion Pounds of More Spending Cuts and Tax Increases: IMF. A 'second generation' of U.K. austerity measures, which the International Monetary Fund suggested should be completed before 2030, would outstrip programs in both Greece and Portugal. Only Japan, Ireland and the U.S. are facing a larger adjustment among advanced economies. To reduce public debt from 82.5% to 60% of gross domestic product (GDP), as well as pay for rising health and pension costs, the U.K. will need 'a fiscal adjustment strategy' over the next 18 years, equivalent to 11.3% of national output, or roughly 170 billion pounds. By comparison, the existing 123 billion pound austerity program is equivalent of 7.5% of GDP. The implicit warning of further pension and health care reforms and another round of austerity came as the IMF raised its (economic) growth forecast for the U.K. this year from 0.6% to 0.8% on the back of the improving world outlook, but warned that the global (economic) recovery remained 'very fragile.' A number of 'tail risks' that could plunge the world back into crisis persist. An oil price spike caused by political fall-out over Iran could trigger a series of devastating events that would 'produce a major (economic) slump reminiscent of the 1930s.' Moreover, a disorderly default in the euro zone would likely lead to a break-up of the 17-member currency region that 'could aggravate economic stress to levels well above those after the Lehman collapse.' IMF chief economist Olivier Blanchard summarized: "An uneasy calm remains. One has the feeling that at any moment things could get very bad again."

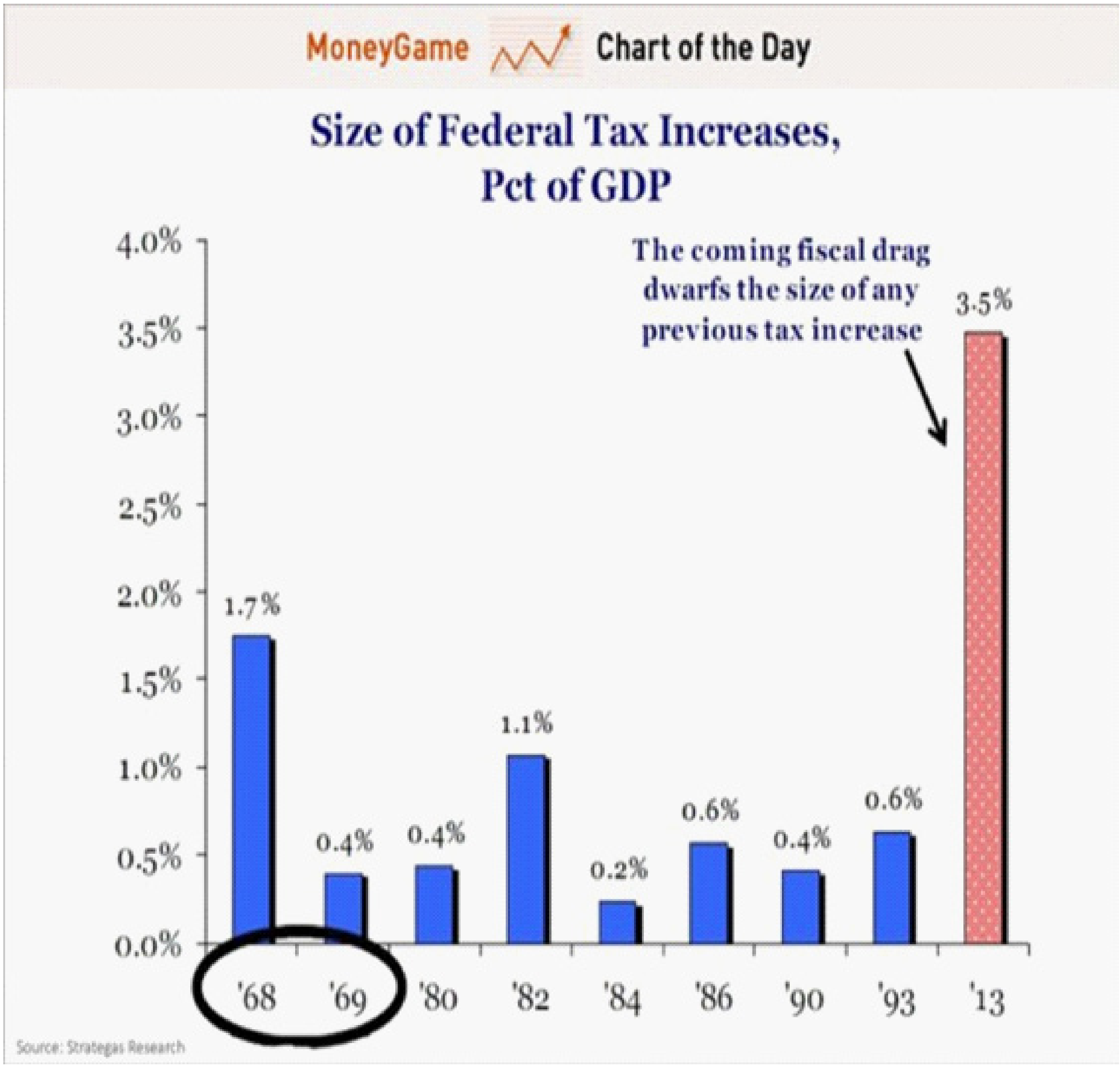


- Front Page Headline, Business Insider – "America Faces a Fiscal Cliff: Morgan Stanley. David Greenlaw, an economist at Morgan Stanley summarizes: 'Under current law, the U.S. economy will experience a fiscal tightening of unprecedented magnitude at the end of this year. The main drivers include the scheduled expiration of the Bush era tax cuts, expiration of the 2011 payroll tax cut, expiration of emergency unemployment benefits, a budget sequester tied to the outcome of the failed Super Committee deliberations, other reductions in non-defense discretionary spending attributable to previously enacted budget appropriations legislation, defense spending reductions tied to a scaling back of activities in Iraq/Afghanistan, and the imposition of some new taxes on individuals imposed by the Affordable Care Act that was passed in 2010.

The closest the U.S. has come to experiencing a fiscal tightening of 5% of gross domestic product (GDP) in the post WW II period was in 1969. In that situation, President Lyndon Johnson and the Congress raised taxes by enacting the Revenue and Expenditure Control Act. The goal was to pay for the Viet Nam War and try to curb inflation. The legislation imposed a 10% surcharge on individual income taxes retroactive to April 1, 1968 and on corporate income taxes retroactive to January 1, 1968. These surcharges were to remain in effect for two taxation years. Telephone and automobile excise taxes were also increased. Moreover, previously enacted legislation imposed a hike in Social Security payroll taxes at the beginning of 1969. The Congressional Budget Office (CBO) estimates that the fiscal tightening in 1969 amounted to 3.1% of potential GDP (on a calendar year basis, it was probably about 3.75% of GDP).

Throughout most of 1968 and into the early part of 1969, real GDP in the U.S. was expanding at about a 5% pace and the unemployment rate was below 4%. However, by the end of 1969, the U.S. economy had entered into a recession. No doubt, a series of Fed (interest) rate hikes, beginning in early 1969 contributed to the deterioration in economic activity, but most economists agree that the tightening on the fiscal side was probably the major factor that tipped the economy into recession.

While the total impact to GDP has been subject to debate, most economists agree that inaction by Congress this year will shave at least three percentage points off the GDP in 2013. Altogether, Greenlaw's team estimates this will shave 5 percentage points off the GDP. The bottom line is that fiscal cliffs are bad news for the economy and the current one threatens to send us right back into recession."



This Time It's Different / Morgan Stanley Wake-up Call

While the next American 'fiscal cliff' may be only7 to 9 months away, the above references to 1969 are interesting but vastly different from the current U.S. economic environment. Today, America's GDP is expanding at about half the rate of 1969 while the official unemployment rate is more than double the rate of that same year. More importantly, today the Republican Party pays more allegiance to the 'Taxpayer Protection Pledge' than its elected members do to their own oath of office. Tragically, political gridlock once again looms on the Washington horizon, while the American national debt soars towards $16.5 trillion (U.S.) by the year end. In 1969, America's national debt stood at $353.7 billion (U.S.). Not so subtle hints are emerging from within the BRIC group of countries (Brazil, Russia, India and China) potentially challenging the status of the U.S. dollar as the world's reserve currency. Moreover, since the Federal Reserve has been the main buyer of new U.S. Treasury issues over the past few years, international fixed income investors are beginning to doubt their 'perceived safe-haven' status. Having severely injured itself with self-inflicted financial wounds to 'both feet', unless Washington comes to its senses soon, America may well find itself cascading over the next 'fiscal cliff' into the hazard of an economic depression and civil unrest.

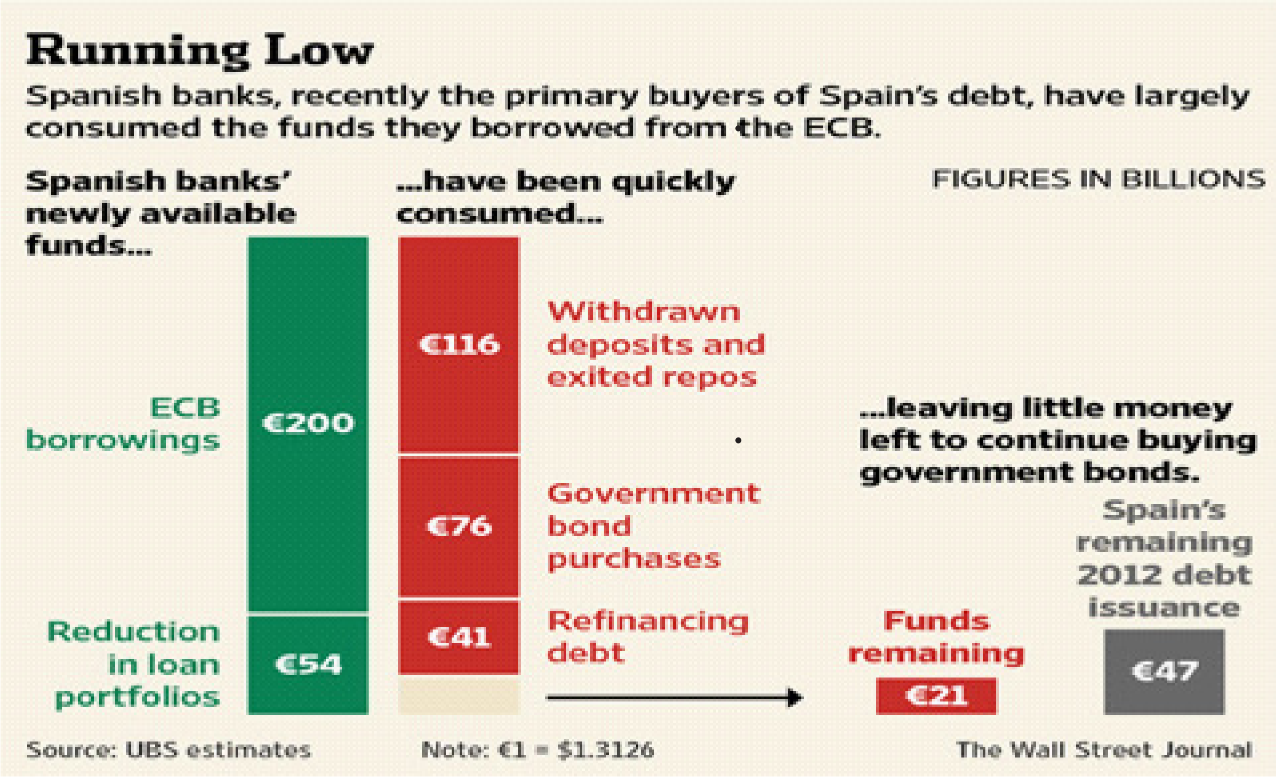
WEDNESDAY, APRIL 18TH

- Front Page Headline, Globe and Mail – "Bank of Canada Governor Carney Plots Higher Interest Rates. In its quarterly monetary policy report, Canada's central bank stated: 'In light of the reduced slack in the economy and firmer underlying inflation, some modest withdrawal of the present considerable monetary policy stimulus may become appropriate. The timing and degree of any such withdrawal will be weighed carefully against domestic and global economic developments.' This modestly hawkish statement hinges on the Bank's more positive assessment of the Canadian economy very recently. Indeed, the Bank raised its 2012 GDP growth projection to 2.4% from 2% in January.

Wake-up call for Governor Carney: Would it not be prudent to await political outcomes and economic developments south of the border, before you raise the Bank Rate in a display of unilateral governorship which may necessitate an embarrassing reversal, if the U.S. tumbles into the 'fiscal abyss' by December?

- Front Page Headline, Wall Street Journal – "Europe's Rescue Plan Falters. Europe's bold program to defuse its financial crisis by injecting cash into the banking system is running out of steam. The European Central Bank's one trillion euro ($1.31 trillion U.S.) of emergency loans caused bond yields of troubled euro zone countries to decline during the 1st. quarter . However, recently Italian and Spanish bond yields have been marching higher because their banks have exhausted those ECB funds.

- Front Page Headline, Wall Street Journal – "Washington Political Gridlock Rears Its Ugly Head. The White House threatens to block any new spending bills until House Republicans reverse the spending cuts which they approved in recent weeks. A House budget resolution approved in March reduces non-defense discretionary spending – for the 2013 fiscal year which begins on October 1st. – by $28 billion (U.S.) below the level that both sides agreed to last year. Discretionary spending requires annual Congressional approval and excludes programs such as Medicare and Social Security. In a letter to House Appropriations Committee Chairman Hal Rogers (R- Ky.), White House Acting Budget Director Jeffrey Zients warned: 'Until the House of Representatives indicates that it will abide by last summer's agreement, the President will not be able to sign any appropriations bills.' Mr. Rogers responded: 'This year, when Appropriations bills pass both the House and the Senate, the President can choose to sign them, or else he can choose to shut down the federal government, put the American people at risk and imperil our economic recovery.' Congress and the White House have agreed on spending levels to fund federal operations through September 30th. which marks the end of the 2012 fiscal year. They must reach new accords in order to fund many government operations after that date. Without new pacts, some government operations would be forced to close down just weeks prior to the November 5th. vote.



THURSDAY, APRIL 19TH

- Japan reports its exports increased by 5.9% in March on a year-over-year basis – led by higher automobile shipments to the U.S. – while recording a trade deficit of 82.6 billion yen ($1 billion U.S.)

- The Brussels-based European Commission reports the euro-area consumer confidence index declined to a reading of minus 19.8 in April, following a level of minus 19.1 in March

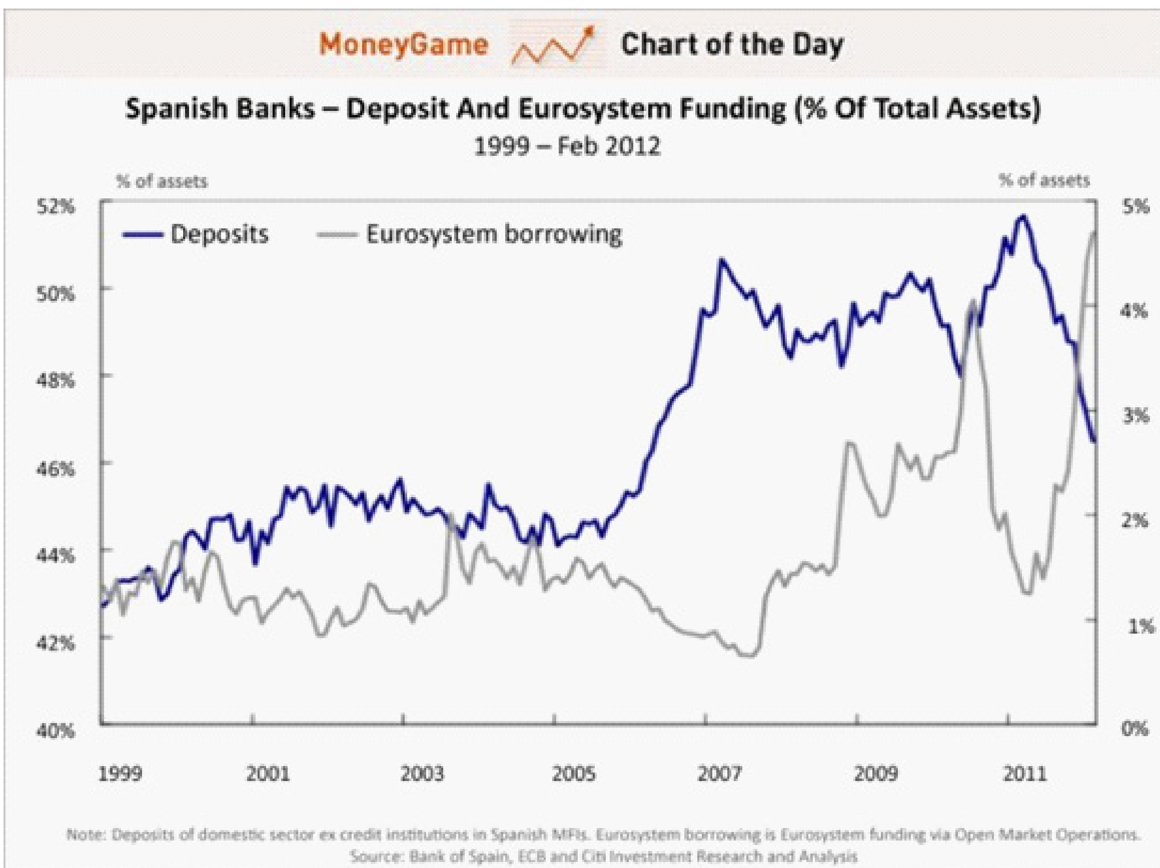
- The Bank of Spain reports delinquent loans held by Spanish banks rose to a 17-year high of 8.16% of the total loans outstanding in February, or 143.82 billion euros ($188.78 billion U.S.), and were over three months overdue for repayment, up from 7.91% in January. Separately, Spain's public works ministry announced that housing prices accelerated their decline in the 1st. quarter, falling by 7.2% on a year-over-year basis. Raj Badiani, an economist with IHS Global insight commented: "Clearly, doubtful loans could climb appreciably in 2012-13 with construction companies and property developers facing accelerating house price depreciation alongside a stock of about one million unsold new properties.

- The National Association of Realtors reports U.S. existing home sales declined by 2.6% in March to an annual pace of 4.48 million units, from a rate 4.6 million units in February. In a note to clients, Steven Wood, President of Insight Economic LLC in Danville, Ca. commented: "A large number of distressed properties, combined with a substantial shadow inventory of unsold homes, have maintained downward pressure on home prices, although they may be stabilizing at the current low level."

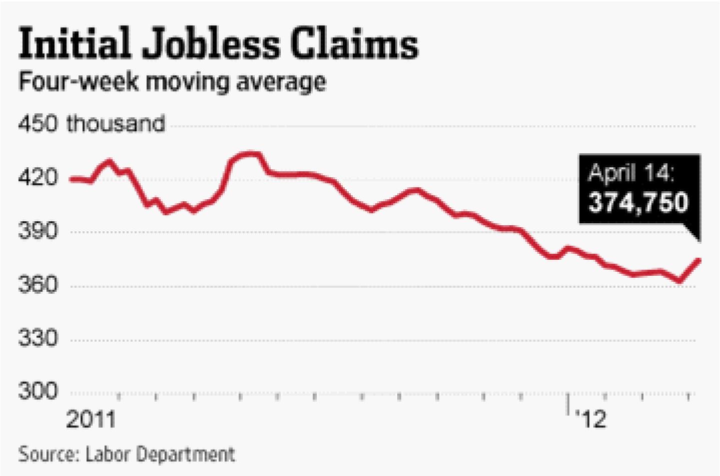
- The New York-based Conference Board's U.S. index of leading economic indicators – covering a 3 to 6 month outlook – rose by 0.3% in March, following a gain of 0.7% in February

- The Federal Reserve Bank of Philadelphia reports its manufacturing index declined to a reading of 8.5 in April, following a level of 12.5 in March. The index survey covers eastern Pennsylvania, southern New Jersey and Delaware.

- The Labour Department reports U.S. initial claims for state unemployment benefits declined by 2,000 to 386,000 from an upwardly revised 388,000 – previously reported as 380,000 – in the week ended April 14th. while continuing claims rose by 26,000 to 3.3 million in the week ended April 7th. The number of



people who have exhausted their traditional benefits but are now receiving emergency or extended benefits under federal programs declined by 19.419 to 2.78 million in the week ended March 31st.



FRIDAY, APRIL 20TH

- Front Page Headline, Bloomberg News – "German Business Confidence Higher. The Munich-based Ifo Institute's index of German business and investor confidence – a survey of 7,000 executives – rose slightly to a reading of 109.9 in April from a level of 109.8 in March, the sixth consecutive monthly increase. Carsten Brzeski, a senior economist at ING Group in Brussels, commented: 'Today's Ifo Index paints too positive a picture of the (economic) growth prospects for the German economy. With austerity-driven slowdowns coming to most other core euro zone countries, an obvious of the Chinese economy and a still not very dynamic U.S. (economic) recovery, (German) export growth should clearly come down."

- Statistics Canada reports the nation's annual inflation rate declined to 1.9% in March from 2.6% in February. TD Securities strategist David Tulk commented: 'In our view, there is nothing in this report which will influence the outlook for monetary policy.' Separately, Statistics Canada reported the country's leading economic indicator rose by 0.4% in March, the ninth consecutive monthly increase.

- Front Page Headline, Globe and Mail – "G20 Countries Support IMF Initiative. After several months of pointed debate, the Group of 20 economic powers finally agrees to support IMF Managing Director Christine Largarde's initiative to raise at least $400 billion (U.S.) to bolster its emergency lending coffers. While Canada and the United States declined to participate, Ms. Lagarde announced that funding commitments had been made by Japan, Great Britain, Poland and the BRIC countries: Brazil, Russia, India and China. Brazilian Finance Minister Guido Mantega's accompanying statement was typical of the attitude of emerging countries: 'The BRICs unanimously agreed to support the International Monetary Fund, but we are not (publically) disclosing the amounts that we will make available. We conditioned the financial commitments to the completion of the IMF's quota reform so that emerging countries have larger representations.' Separately, Japanese Finance Minister Jun Azumi stated: 'I told the IMF that we will, not only provide it with money, but also, make human contributions to the Fund; so we want it to give us posts matching the levels of our contributions."

- Front Page Headline, Wall Street Journal – "Spain Urges Nations to Enact Sanctions Against Argentina. Jose Manuel Garcia-Margallo, Spain's foreign minister, urges European and other global leaders to enact concrete sanctions against Argentina in a bid to force the country to fully compensate Spanish oil firm RepsolYPF SA for the recent expropriation of its Argentine unit. In an interview, Mr. Garcia-Margallo also resolved that Spain would demand Argentina's preferential trade status with the European Union be removed. Argentina's announcement last week to nationalize YPF was engineered by the country's new Deputy Economy Minister Axel Kicillof, a messianic patriot with a background in academia, who has condemned 'free-market fundamentalists' who espouse economic theories that 'justify the looting of our resources and our companies.' To add insult to injury, yesterday Argentina ordered the seizure of YPF Gas, another unit of Repsol, a move expected to inflame tensions further.

- Front Page Headline, Wall Street Journal – "Current, Former B of A Directors Agree to $20 million (U.S.) Settlement. The proposed settlement would resolve claims that former Bank of America Directors and Chief Executive Officer Ken Lewis, breached their fiduciary duty to the bank, when they neglected to inform investors about soaring losses during the takeover of troubled Merrill Lynch in 2008-09. However, this U.S. District Court Case is only one of several similar suits pending before federal and state courts in New York and Delaware. See also, Economic Winter – The Clash of Cultures, February 2, 2009.

- Front Page Headline, Daily Telegraph U.K. – "German Tempers Flare Over Back-Door Euro Rescues. Controversy is raging in Germany over soaring payments by the Bundesbank (German central bank) to bolster Europe's monetary system and cope with a tidal wave of capital flight from southern Europe. In an address to Austria's Economics Academy yesterday, Professor Hans-Werner Sinn, President of Germany's Ifo Institute, warned:

‘German taxpayers are facing a dangerous rise in credit risk from a plethora of bailout schemes. The Euro System is near explosion. Germany is at risk for much of the 2.1 trillion euros in rescue measures for European Monetary Union debtors – often via the back-door –that will saddle Germans with ruinous losses one day. It’s a horror scenario because the euro system is splitting friendly countries into blocs of mutually hostile creditors and debtors, exactly the opposite of what was hoped.’ Earlier this week, the Foundation of Family Business in Munich filed a criminal lawsuit against the Bundesbank, accusing the board of disguising the true scale of risk borne by German citizens. The furore follows a sharp increase in the Bundesbank’s ‘Target 2’ claims within the European Central Bank’s (ECB) internal payment network from 547 billion euros in February to 616 billion euros in March. Bundesbank claims have risen six fold since 2008; an increase mirrored in Holland and Luxembourg. Target 2 transfers are automatic credits to fellow central banks in the ECB family, chiefly in Italy, Spain, Greece and Ireland. They offset capital flight from the euro zone’s core, reflecting extreme stress in the system. There has been a dramatic increase in outflows from Spain, despite the ECB’s one trillion injection of three-year liquidity. The exodus indicates that the ECB action has to date failed to restore basic trust in Spain’s banks. Critics say Target 2 allows the vast sums to accumulate forever, unlike the U.S. ‘FEDwire’ which mandates the settlement of regional imbalances within months. The Target 2 saga has become a daily theme in the German press, with Dr. Sinn emerging as a television superstar. The coverage is eroding confidence in the euro. The latest poll reveals that 56% of Germans want to return to the Deutschemark. Bundesbank President Jens Weidmann has fanned the flames by demanding collateral from weaker states for Target 2 transfers. The imbalances are not a problem ‘as long as the euro zone stays together.”

CLOSING LEVELS FOR FRIDAY, APRIL 20TH.		WEEKLY CHANGE
Dow Jones Industrial Average	13,029.26	+ 179.67 points
Spot Gold Bullion (June)	$1,642.50 (U.S.)	– $17.70 per oz.
S&P /TSX Composite	12,147.28	+ 106.89 points
10-Year U.S. Treasury Yield	1.96%	– 2 basis points
Canadian Dollar	100.75 cents (U.S.)	– 0.59 cent
U.S. Dollar Index Future (Spot Price)	79.144 cents	– 0.733 cent
WTI Crude Oil (June)	$103.88 (U.S.)	+ $1.05 per barrel

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