Monday April 23rd, 2012

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, April 23rd

Front Page Headline, Bloomberg News – "U.S. Social Security Fund Exhausted by 2035. In their annual report, the trustees conclude the U.S. Social Security program will exhaust its trust fund by 2035 and be forced to begin reducing benefits to senior citizens

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unless Congress intervenes. That is three years sooner than projected in 2011for the retirement benefits program which serves 44 million Americans at an annual cost of $436 billion (U.S.). Social Security's disability program, which aids 11 million Americans, will exhaust its trust fund in 2016, two years earlier than previously forecast."

- Front Page Headline, Bloomberg News – "Dutch Cabinet Collapse Reveals Unpopularity of Merkel Fiscal Pact. Alarm over Europe's sovereign debt predicament is surging again. The immediate cause is the European Union's fiscal pact. Germany insisted on this plan to cut public borrowing sharply and immediately and euro-area governments hoped it would restore stability. It's doing the opposite. The fiscal pact is proving so unpopular that it's undermining governments. The stresses caused by the EU's strategy influenced presidential elections yesterday in France and forced a crucial partner in German Chancellor Angela Merkel's austerity drive, Dutch Prime Minister Mark Rutte, to offer his cabinet's resignation today. This new political turbulence is spilling over into financial markets, threatening a vicious circle of worsening economic stress and political risk. The Netherlands' sovereign debt position is strong – it enjoys a 'AAA' credit rating – despite concerns over high levels of household debt. Today, investors demanded higher yields for Dutch government bonds, but Spain remains the country most at risk. Spain's debt position is anything but strong. Yields on its 10-year bonds rose above 6% today, stirring fears of insolvency. Spain is the euro area's fourth largest economy and might settle the EU's fate, eventually. If Spain goes the way of Greece, the EU's financial defenses would probably be overwhelmed and the wider global (economic) recovery would again be in peril."

- Front Page Headline, Daily Telegraph U.K. – "S&P Places Argentina on Negative Watch. Standard & Poor's places a negative watch on Argentina's 'B' credit rating, citing 'rising restrictions to international trade' and 'steps to nationalize oil company YPF.' S&P added that Argentina's recent actions 'could exacerbate existing weaknesses in the economy, pointing to high inflation and increasingly rigid government expenditure.' The news came after Spain's Repsol threatened legal action against any company that attempts to invest in YPF following its expropriation by Argentina last week, as the Argentine government expressed determination to 'pay nothing at all' in compensation to the Spanish oil company. The move would discourage external partners from providing the investment YPF needs to exploit vast shale oil deposits discovered within Argentina and is the latest attempt by Repsol to fight back against the illegal seizure of its subsidiary. Kristian Rix, a spokesman for Repsol in Madrid, told the Daily Telegraph: 'We reserve the right to take legal action against any party investing in YPF and its assets, following the unlawful expropriation of the company. Furthermore, as reported in the Wall Street Journal: 'A decade after its 2001 default, Argentina is still shunned by the credit markets. It is unable to finance long-term investment and needs periodic (currency) devaluations to maintain productivity. When the government borrowed money from its friend Hugo Chavez of Venezuela a few years ago, the high interest rate did not reflect a socialist brotherhood."

- Front Page Headline, Bloomberg News – "Illinois' Unpaid Bills Exceed $9 billion (U.S.): Comptroller. In a financial update, State Comptroller Judy Baar Topinka reports: 'Despite higher revenues from personal and corporate taxes, Illinois' financial condition has not improved. The combination of unpaid bills to vendors, Medicaid obligations, pension funding and declining federal aid means payment delays will persist.' In a recent commentary, Standard and Poor's has warned it 'may lower the State's general obligation A (High) credit rating if there is no progress on structural budget solutions and if Illinois does not address the significant pension liabilities and associated cost pressure.' Meanwhile, Illinois Governor Pat Quinn has proposed a voluntary 3% increase in pension contributions from current employees and a reduction in cost-of-living increases for retirees." See also, Economic Winter, The Pension Predicament (2) – State of Illinois: A Pension Basket Case, April 18, 2012.

Illinois Democratic Governor Pat Quinn
Source: Daniel Acker / Bloomberg

- Front Page Headline, Bloomberg News – "Bundesbank's Weidmann Campaigns against Indefinite Expansion of the Money Supply. In a New York speech, Deutsche Bundesbank President Jens Weidmann warns: 'Central bank monetary policy is not a panacea and central bank firepower is not unlimited, especially not in a monetary union. We can only win back (investor) confidence (in the European Union) if we bring down excessive deficits and boost (euro zone) competitiveness. Indeed, it is precisely because these things are unpopular that makes it so tempting for politicians to rely instead on monetary accommodation.' In a recent London speech, Weidmann offered this sobering assessment: 'The time has come to move from containing the (euro zone sovereign debt) crisis to resolving it. If we possess the will to make the right choices, we will be able to rebalance Europe and lay the foundation for a stronger, more stable monetary union."

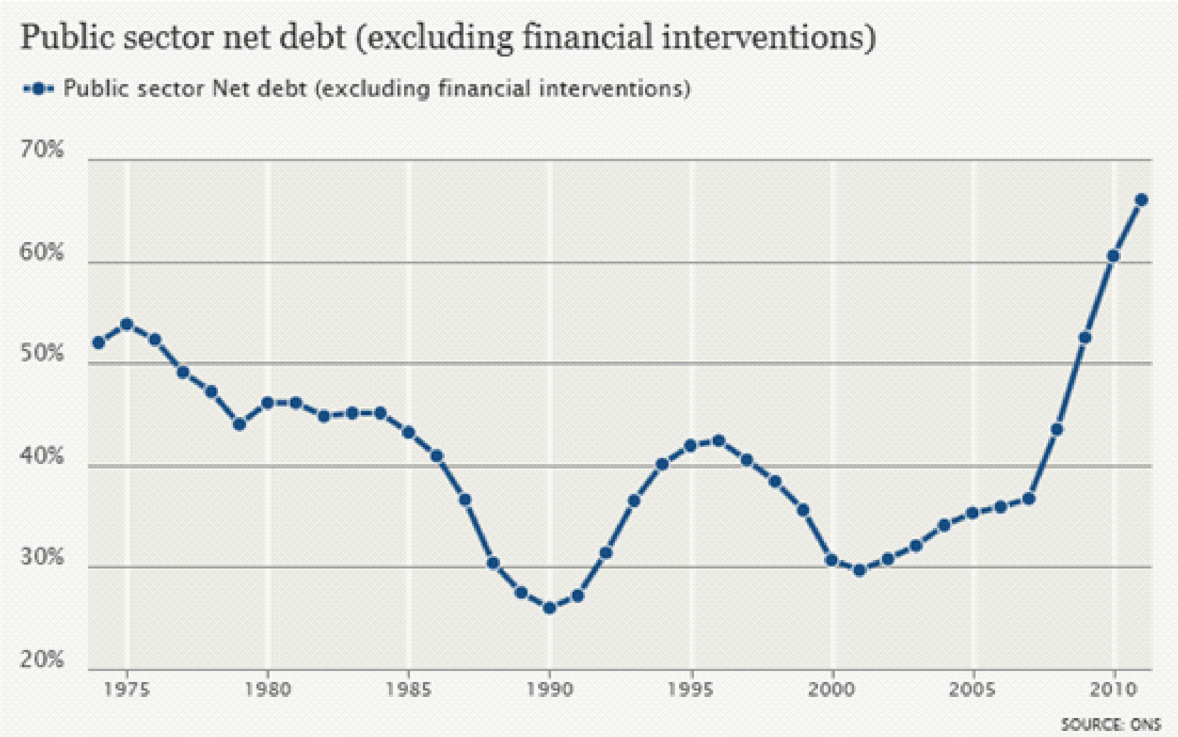
Deutsche Bundesbank President Jens Weidmann
Source: Chris Ratcliffe / Bloomberg

TUESDAY, APRIL 24TH

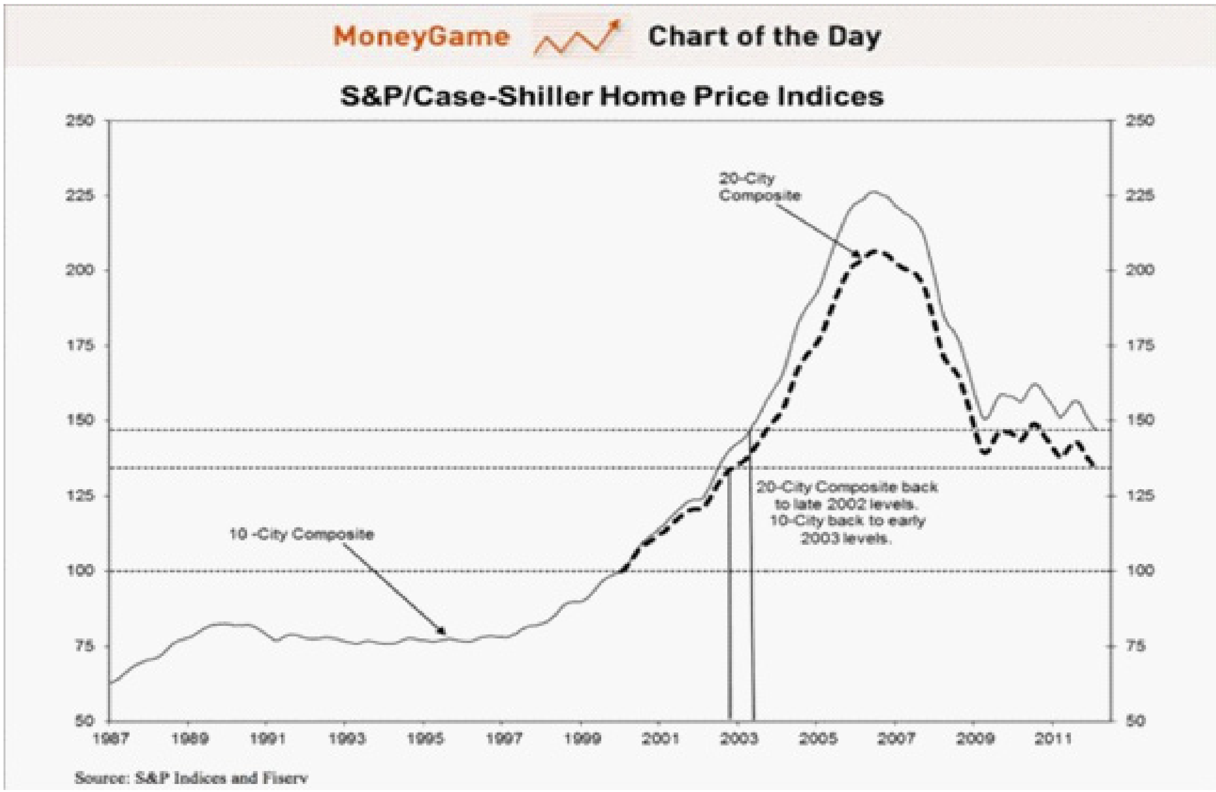
- The Commerce Department reports U.S. new home sales declined by 7.1% to an annual pace of 328,000 units in March from a revised 353,000 annual rate in February, despite continuing low mortgage rates and a prevailing level of low house prices

- The Brussels-based National Bank of Belgium reports its business confidence index declined to a reading of minus 10.7 in April following a level of 9.6 in March, citing deteriorating sentiment in the manufacturing and services industries

- Front Page Headline, Daily Telegraph U.K. – "Britain's National Debt Rises Above One Trillion Pounds. The Office for National Statistics reports the U.K. Government met its deficit target of 126 billion pounds for the fiscal year ended March 31st. because of downward revisions to previous months, but the national debt rose above 1 trillion pounds – or 66% of the nation's gross domestic product (GDP) – the highest level since records commenced in 1993. The total borrowed was 11 billion pounds less than in fiscal 2011, providing some relief for the Chancellor of the Exchequer, who has repeatedly restated his commitment to austerity measures in an attempt to reduce the deficit and preserve Britain's 'AAA' sovereign debt credit rating. Samuel Tombs, an economist at Capital Economics commented: 'The public finance figures for March suggest that the trend in the U.K.'s fiscal position is worsening. Weaker-than-expected growth in tax revenues, reflecting the slow pace of economic recovery, has been offset by lower-than-anticipated growth in current expenditure for the entire fiscal year of 2012. However, with the economic recovery continuing to stutter, we think it will become increasingly difficult for the Government to meet its ambitious deficit reduction plans for fiscal 2013."



The United Kingdom's public sector net debt Source: U.K. Office for National Statistics



- The S&P / Case-Shiller U.S. 20 city composite index declined by 0.8% in February and fell by 3.5% on a year-over-year basis, the lowest level since October 2002. Of the 20 cities measured, 16 had negative readings and only three recorded gains.

- Front Page Headline, Daily Telegraph U.K. – "British Gas Places 550 Jobs at Risk. British Gas announces its intention to close its Southampton call centre which could result in 550 job losses. A company spokesman elaborated: 'If we are going to remain competitive and offer the best prices to our customers, we need to reduce our costs. Therefore, we have reviewed resource levels in our energy business and are now proposing to close our Southampton contact centre at the end of 2012."

- The New York-based Conference Board's index of U.S. consumer confidence declined slightly to a reading of 69.2 in April from a revised level of 69.5 in March. In a statement, Lynne Franco, Director of the Conference Board Consumer Research Center commented: "Overall, consumers remain cautiously optimistic about the economy."

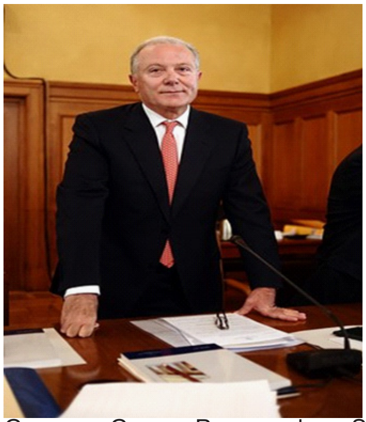
WEDNESDAY, APRIL 25TH

- The Commerce Department reports U.S. durable goods orders declined by 4.2% in March, the biggest decline since January 2009, citing a drop in demand for aircraft

- Front Page Headline, Wall Street Journal – "S&P Lowers India's Credit Rating Outlook to Negative. Standard and Poor's Rating Services reduces India's long-term 'BBB' (Low) credit rating outlook to negative from stable. S&P credit analyst Takahira Ogawa commented: 'There is a 33% chance of a (sovereign debt credit) rating downgrade within the next 24 months if India's external (read: international trade) position continues to deteriorate, (economic) growth prospects diminish, or progress on fiscal reforms remains slow in a weakened political setting."

- Front Page Headline, Wall Street Journal – "U.S. Federal Reserve Reaffirms Low Interest Rate Policy. In a statement following a two-day meeting, members of the Federal Open Market Committee (FOMC) noted new concerns about financial strains in Europe and offered a more subdued description of the job market. Nine out of ten FOMC members voted to maintain the Fed's easy-money policy by keeping the Federal Funds rate at its present range of 0 – 0.25% at least through late 2014."

- Front Page Headline, Wall Street Journal – "Greek Central Bank Governor Warns of Possible Euro Exit. In tabling the central bank's annual report, Bank of Greece Governor George Provopoulos issued an unusually blunt warning: 'There is no easy way out of the (sovereign debt) crisis. The (austerity target) adjustments must be pursued with determination following the May 6th. general elections. What is at stake (here) is the choice between an orderly, albeit painstaking, effort to reconstruct Greece's economy within the euro zone and with the support of our (European) partners; or a disorderly economic and social regression, taking the country several decades back and eventually, driving it out of the euro zone and the European Union.' In a separate report, the central bank increased its economic contraction outlook for the country's gross domestic product (GDP) this year to 5% from 4.5%, following last year's contraction rate of 6.9%."



Governor George Provopoulos Source:Agence France-Presse

THURSDAY, APRIL 26TH

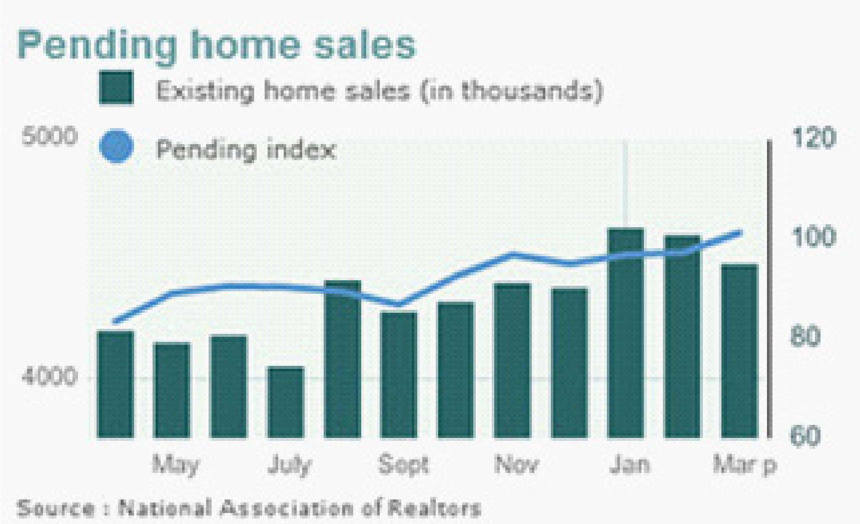
- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 1,000 to a seasonally adjusted 388,000 in the week ended April 21st. while continuing claims increased by 3,000 to a seasonally adjusted 3.32 million in the week ended April 14th. The number of people who have exhausted their traditional benefits but are now receiving emergency or extended benefits under federal programs increased by about 192,000 to 2.972 million in the week ended April 7th.

- The European Commission (EC) reports its overall index of economic confidence declined sharply to a reading of 92.8 in April, the lowest level since December 2009, citing steep declines in the manufacturing and services industries, with the outlook for new employment and order books deteriorating in both sectors. Among euro zone countries, Greece, Spain and Italy posted the worst results. In a research note, Zach Wilton of Moody's Analytics observed: "Business and consumer confidence is under pressure from fiscal tightening throughout the euro zone; witnessing rising unemployment and renewed concerns about the sovereign debt crisis."

- Front Page Headline, National Post – "S&P Places Ontario on Negative Credit Watch. In a statement, Standard and Poor's Rating Services commented: 'We believe the Province's main credit challenges include its continuing weak budgetary and debt metrics; as well as its challenging cost containment plan required to achieve budgetary balance by fiscal 2018. Although we believe that the Ontario Government's fiscal plan is based upon cautious near-term economic assumptions, its success is tied to significant savings measures which could prove challenging to achieve.' Avoiding a credit rating (currently 'AA' Low) downgrade was part of Ontario's motivation and justification for the cost cutting initiative introduced in the recent fiscal 2013 budget speech."

Ontario Finance Minister Dwight Duncan (left)
Source: Tyler Anderson/National Post

- The National Association of Realtors reports its U.S. pending home sales index rose by 4.1% to a reading of 101.4 in March, following an upwardly revised level of 97.4 in February, previously reported as 96.5. A sale is listed as pending when the contract has been signed but the transaction has not closed, though the sale is usually completed within one or two months of signing.

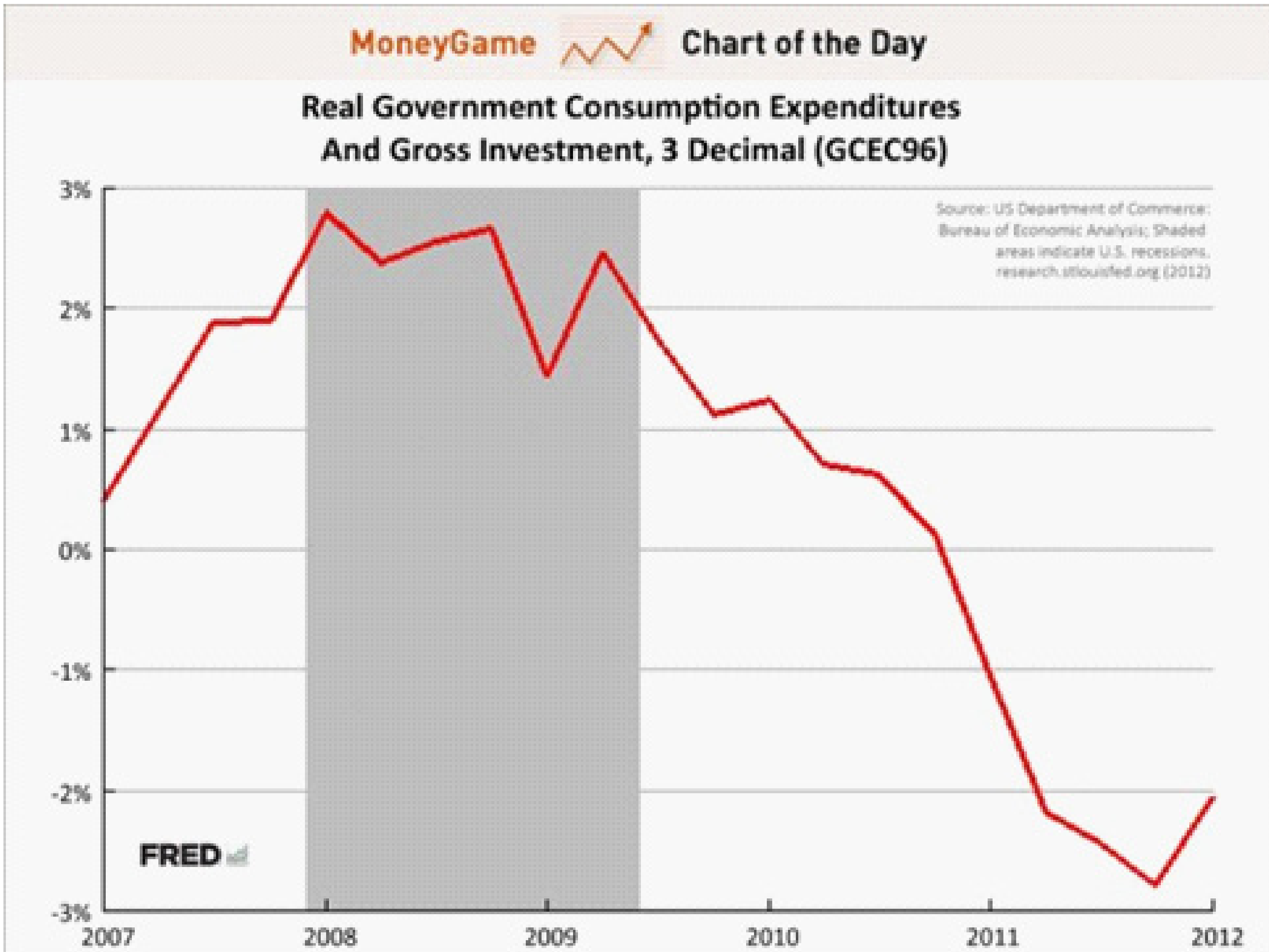


- Front Page Headline, The Slog – "Brussels and Berlin Fear Anti-Troika Majority in the Greek Elections. European sources have informed the Slog that there is mounting concern in both Berlin and Brussels that an anti-Troika majority could become the Greek government after the May 6th. elections. The Troika consists of the European Union, the European Central Bank and the International Monetary Fund and is supported by PASOK Party leader Evangelo Venizelos, reportedly unpopular with a majority of Greek voters."

- Front Page Headline, Financial Times – "S&P Downgrades Spain to 'BBB' (High). Standard and Poor's rating Service downgrades Spain's sovereign debt credit rating from 'A' to 'BBB' (High) with a negative outlook, citing: 'A further downgrade is possible should Spain's net general government debt (level) rise above 80% of gross domestic product (GDP) between now and 2014. We could also consider another rating downgrade if political support for the current reform agenda were to wane. The negative outlook on the long-term rating reflects our view of the significant risks to Spain's economic growth and budgetary performance; as well as the impact we believe this will likely have on the sovereign's creditworthiness.' S&P also expects Spain's GDP to contract by 1.5% in real terms during 2012 and by 0.5% in 2013."

FRIDAY, APRIL 27TH

- The Commerce Department reports U.S. gross domestic product (GDP) grew by an annual rate of 2.2% in the 1st. quarter, citing reduced government military spending



- Finance Canada reports the federal government posted a $1.5 billion (CAD) surplus in February, following a surplus of $1.7 billion (CAD) in January. With only one month left to report for the last fiscal year, the 2011-12 cumulative deficit stands at $14.5 billion (CAD). Government spending on programs in February declined by 3.6% from February 2011, a category which includes transfer payments and other program expenses. Since Ottawa is increasing major transfers to the provinces for health and education, an overall expense reduction signals that spending on direct federal programs is down significantly.

- Front Page Headline, Globe and Mail – "Spain Is in a Crisis of Huge Proportions: Foreign Minister. Following yesterday's downgrade of Spain's sovereign debt credit rating by Standard and Poor's, today the government reported that the unemployment rate had worsened to 24.4% in March. More than half of Spain's youth is unemployed – 5.6 million people in total – after 374,000 jobs vanished in the 1st. quarter. Jose Manuel Garcia-Margallo, Spain's Minister of Foreign Affairs, declared: 'The figures are terrible and terrible for the government.' Further commentary from S&P suggested: 'In our view, the strategy to manage the European sovereign debt crisis continues to lack effectiveness. Credit conditions, and hence the economic outlook for Spain, could now deteriorate further than we anticipated … unless offsetting euro zone policy measures are implemented.'

- The Canadian Real Estate Association (CREA) reports the country's multiple listing service (MLS) home price index rose by 1.3% in March and by 5.1% on a year-over-year basis. CREA President Wayne Moen commented: "Overall price trends show that Canada's housing market continues to moderate. Price increases have been shrinking since last fall. While that trend paused in March, it may partly reflect an early spring in many areas of the country, resulting in increased competition among buyers."

- Front Page Headline, Globe and Mail – "Moody's Downgrades Ontario's Credit Rating. Moody's Investors Service downgrades Ontario to a 'AA' rating from 'AA' (High) citing, "In Moody's view, there are significant risks surrounding the Province's ability to achieve its medium-term fiscal targets and stabilize, then reverse the recent accumulation in debt. Whereas, growth in expenses averaged 7% a year over the last five years, the task of reducing the rate of increased spending to 1.9% over the next three years and 1.1% thereafter, seems daunting; given continued pressures on health expenses, the Province's largest expense item, due to demographic pressures.'

- Front Page Headline, Wall Street Journal – "Five Bank Closures Bring Year's Tally to 22: FDIC. State regulators close five banks in Maryland, Minnesota, South Carolina and California, bringing the nationwide tally of bank failures up to 22 for the year. Regulators closed Palm Desert National Bank in California, allowing Pacific Premier Bank of Costa Mesa to take over as part of a purchase-and-assumption deal with the Federal Deposit Insurance Corp. Palm Desert National had about $125.8 million (U.S.) in total assets and $122.8 million (U.S.) in total deposits at the end of 2011. Pacific Premier agreed to acquire all of the failed bank's deposits and purchase all of its assets."

- Front Page Headline, Daily Telegraph U.K. – "QE Quadruples FTSE Pensions Deficit in One Year. According to pensions firm Hymans Robertson, the final-salary pensions shortfall of the FTSE 350 companies has quadrupled from 20 billion pounds at the end of March 2011 to 80 billion pounds at the end of last month. The figures lay bare the extent to which repeated rounds of central bank quantitative easing (QE) has distorted the pension black hole. A growing number of U.K. business leaders are arguing companies should pump spare cash into business growth and job creation rather than plug 'artificially depressed' deficits. However, the pension watchdog infuriated firms by rejecting calls to make allowances for the impact of QE when calculating future pension fund liabilities. In its first funding statement, the Pensions Regulator told strong companies to plug deficits, rather than invest in capital expenditure. Adam Marshall, policy director at the British Chambers of Commerce, commented: 'The best way to meet future pension liabilities is to return the economy to growth and safeguard the solvency of the employers who back the pension funds. We need firms to invest in real jobs and growth, rather than plugging paper pension deficits.' Jim Bligh, the Director of Labour Policy at the Confederation of British Industry (CBI), warned the regulator's stance could lead to some firms declaring bankruptcy: 'The risk of insolvencies is greater if you have to pump cash into something that is locked away unproductively.' See also. Economic Winter, The Pension Predicament (2) – Pension Risks Threaten U.K. Finances: IMF. April 18, 2012.

CLOSING LEVELS FOR FRIDAY, APRIL 27TH.		WEEEKLY CHANGE
Dow Jones Industrial Average	13,228.31	+ 199.05 points
Spot Gold Bullion (June)	$1,664.80 (U.S.)	+ $22.30 per oz.
S&P / TSX Composite	12,237.75	+ 90.47 points
10-Year U.S. Treasury Yield	1.93%	– 3 basis points
Canadian Dollar	101.94 cents (U.S.)	+ 1.19 cent
U.S. Dollar Index Future (Spot Price)	78.706 cents	– 0.438 cent
WTI Crude Oil (June)	$104.93 (U.S.)	+ $1.05 per barrel

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