LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, May 7th

Front Page Headline, MarketWatch News – "Greece's Election Results Spark New Turmoil. With 99% of the vote tabulated, the center-right party New Democracy was on track to hold 108 seats in the 300-seat lower house of parliament, while the center-left

MONDAY, MAY 7TH

Socialists, known as Pasok, held 41 seats. Pasok actually finished in third place behind the left-wing and anti-financial bailout Syriza party, which won 52 seats. This leaves a combination of New Democracy and Pasok – the country's long-dominant parties and architects of the recent financial bailout – two seats short of a 151 seat majority. New Democracy leader Antonis Samaras now has three days to form a coalition government. If he fails, the mandate will pass to the head of the second-place Syriza party and then to Pasok. Each party would have three days to complete government formation talks. Political observers noted the inconclusive election result casts serious doubts that a solid coalition Greek government can be formed, potentially, setting the stage for another election as soon as June 17th."

- The Federal Reserve reports U.S. consumer credit increased by $21.4 billion (U.S.) to $2.54 trillion (U.S.) in March – the biggest monthly increase since November 2001. Julia Coronado, chief economist for North America for BNP Paribas in New York commented: "Student loan growth continues to be very strong and a little worrisome. Smoothing through the monthly volatility, consumers are becoming a little more comfortable with borrowing to buy cars."

- Statistics Canada reports the nation's building permits rose by 4.7% to 6.8 billion (CAD) in March, following a 7.6% increase in March, citing institutional building intentions rose a stunning 88.4%, mainly for government buildings and medical facilities in Ontario

- The New York-based Conference Board reports its Employment Trends Index rose to a reading of 108.4 in April – the highest since July 2008 – from a revised level of 107.18 in March. The employment trends index aggregates eight labour market indicators to forecast short-term hiring trends. On average, it can signal a rebound in hiring as little as three months before the fact and can predict job declines six to nine months in advance.

- Front Page Headline, Bloomberg News – "Putin Returns to Power Amid Street Protests. Reclaiming the pinnacle of Russia's politics, as police detained hundreds of anti-government protesters, Vladimir Putin proclaimed: 'Today we begin a new stage in the nation's development. The coming years will determine Russia's fate for decades to come.' The Russian leader signed at least a dozen decrees within hours of being sworn in for his third term (now 6 years compared to the previous 4 years), assigning deadlines for priorities including state asset sales, improving the investment climate and job creation. Mr. Putin also nominated former President Dmitry Medvedev to be prime minister. Mr. Putin, 59, inherits an economy with more difficult prospects than when he left the Kremlin in 2008, making it more difficult to soothe the domestic tensions which brought tens of thousands onto Moscow streets yesterday in the latest protests. In the opinion of Long Wave Analytics, undoubtedly, Vladimir the Terrible is now poised to revive his legacy of despotism and dictatorship – a retrograde example of a walking anachronism – who can only be deemed a negative force in the future of Mother Russia.

- Front Page Headline, MarketWatch News – "Fateful Choice for France. In an op-ed, reporter David Marsh comments: 'Yesterday's election victory of Francois Hollande, containing remarkable parallels with Francois Mitterrand's triumph as modern France's first Socialist president 31 years ago, exposes a new phase of in-fighting within the European Economic and Monetary Union (EMU). Hollande's electoral defeat of President Nicolas Sarkozy – looking psychologically battered in a valedictory appearance in Paris – was the easy part. As the euro scene darkened anew with the sharp gains for anti-austerity parties in the separate Greek election, the hard-pounding for France's president-elect begins immediately. Mr. Hollande carries the ambitions of the 'no-hope brigade' of peripheral countries challenging German-style austerity within the EMU. If he fails, they'll all go down together … Up until now, the battle over control of the European economy has been fought in outposts of the single euro currency; first on the Aegean, the on the Liffey and Tagus Rivers in Dublin and Lisbon and then; with the spreading of the crisis to Spain and Italy, in the Pyrenean and Alpine foothills. Now, as Mr. Hollande prepares to throw down the gauntlet to Chancellor Angela Merkel, the skirmishing will traverse the Seine to the Rhine. Already, German nerves are being strained by the rising cost of shoring up the EMU edifice by the involuntary Target-2 credits from the German Bundesbank to the European Central Bank (ECB), and then to debtor central banks. The latest figures show this obscure mechanism, essentially financing capital flight from debtor countries, encapsulates Bundesbank loans totaling 615 billion euros, 23% of Germany's gross domestic product (GDP), helping to finance (with other creditor countries) loans to the central banks of Greece, Portugal, Spain and Italy; comprising 50%, 44%, 26% and 17%, respectively, of these countries' GDPs."

Socialist party leader Francois Hollande casts his ballot on Sunday. Source: Reuters

- The Economy Ministry in Berlin reports German factory orders – adjusted for seasonal volatility and inflation – rose by 2.2% in March, following a revised gain of 0.6% in February

TUESDAY, MAY 8TH

- The Labor Department reports job openings in the U.S. increased by 172,000 to 3.74 million in March, the highest number since July 2008, following a revised 3.57 million in February

- Front Page Headline, Bloomberg News – "Australia Attempts to End Four Decades of Spending Increases. In a budget speech to Parliament in Canberra, Australia's Treasurer Wayne Swan projects the government's underlying cash surplus will be $1.54 billion (AUD) for the fiscal year ending June 30, 2013. Mr. Swan expounded: 'The surplus years are here. A balanced budget will provide a buffer against global (economic) uncertainty and continue to give the Reserve Bank of Australia (RBA) room to lower interest rates for families.' As was so succinctly described in the most recent issue of the Privateer: 'In the United States, in Australia and everywhere else – the problem is not the 'markets' – it is the money. A viable economy cannot run on promises to pay in wealth which is NOT being created, but is being destroyed to fund yet more promises to pay. If we want 'our' markets back, we must first overcome 'their' (government) control over our money. Unless and until that happens, the monetary engine will run until it drowns us all."

- The London-based Royal Institution of Chartered Surveyors (RICS) reports its U.K. house price index declined to a reading of minus 19 in April from a level of minus 11 in March. Simon Hayes and Chris Crowe, economists at Barclay's Plc in London, commented: "The health of the U.K. housing market is a reverberation of consumer confidence and credit availability. Unlike in some other countries, the U.K. (housing) market continues to be fundamentally supported by a lack of supply, which is acting to stave off sharper price declines; but at present, it is difficult to ascertain what might spur an improvement."

- Front Page Headline, Globe and Mail – "Brussels, Berlin Tell Europe to Support Austerity Measures. Germany and the European Commission (EC) call upon European Union (EU) nations to stand by their agreed budget cuts, despite mounting voter dissent in Greece and France. Government officials in Berlin and Brussels acknowledged there was some room for more reforms to promote economic growth, but insisted that any new growth policies must not detract from Europe's drive to lower its deficits. EC President, Jose Manuel Barroso informed reporters: 'What EU member states must do is be consistent, implementing the policies to which they have agreed. Now, the key is implementation."

- The economy Ministry reports German industrial production rose by 2.8% in adjusted terms in March. Construction was the main driver, rising a massive 30.7% on the month, following a 16.9% drop in February, during a stretch of unusually cold weather.

WEDNESDAY, MAY 9TH

- The London-based British Retail Consortium (BRC) reports U.K. retail same-store sales (stores open for at least 12 months) declined by 3.3% in April on a year-over year basis, citing poor weather and consumer caution

- The Federal Statistics Office in Wiesbaden reports German exports – adjusted for work days and seasonal changes – rose by 0.9% in March, citing demand from outside the euro region offset weaker sales in Europe

- Front Page Headline, Wall Street Journal – "Turmoil in Greece Raises Euro Risk. Financial markets' relatively calm reaction to the Greek political turmoil, masks rising risks that Greece is on a road which leads to its exit from the euro zone with difficult-to-predict consequences. Last weekend's elections were seen by many as a possible beginning of the end, by choice or by necessity, for Greece's membership in the European Monetary Union (EMU). In the short-term, if Greece is unable to form a new coalition government that can abide by the conditions of its bailout package, it likely faces another election in mid-June. Despite the political disorder, there are still powerful forces holding the euro zone together and investors haven't yet concluded that the moment for a great schism is at hand. For now, markets are gauging that it still too painful and premature for either side to sever ties."

Greek grocery workers clash with police in Athens last Sunday. Source: Reuters

- Front Page Headline, Financial Times – "Greek Right Attacks Plan to Scrap Bailout. Antonis Samaras, Greece's center-right political leader of the New Democracy Party warns that a call by the radical leftwing Syriza Party to refute/reject the country's latest bailout agreement would trigger 'an internal collapse and international bankruptcy. We are determined to build a center-right front to keep Greece in the euro."

- Front Page Headline, Financial Times – "Spain Prepares Bank Recapitalization Plan. Spain is preparing to force its banks to set aside as much as 30 billion euros in additional capital tiers against property loans as part of a new restructuring plan for the country's embattled lenders. Concurrently, Spanish Premier Mariano Rajoy orders the nationalization of the crippled lender Bankia, after auditors Deloitte Touche refused to accredit the bank's books, amid allegations of 3.5 billion euros of inflated assets. Half of the bank's 37 billion euros of property exposure is deemed 'problematic' by regulators. Separately, the yield on Spanish 10-year bonds rose by 23 basis points to 6.07%."

- Front Page Headline, Daily Telegraph U.K. – "Federal Reserve Approves China-Controlled Banks Acquiring Stakes in U.S. Banks. Having decided it was well regulated in the domestic market, the U.S. Federal Reserve reported the Industrial and Commercial Bank of China (ICBC) – the biggest bank in China and 70.7% owned by the Chinese Government – will be granted a bank holding company status in the U.S. In addition, China Investment Corporation (CIC) – an investment agency established by the Chinese Government to invest its massive foreign exchange reserves – and a CIC subsidiary named Huijin Investment will be granted bank holding company status. They will become bank holding companies by taking control of the Bank of East Asia in New York; the first time a Chinese bank has been approved to acquire a U.S. bank. Karen Petrou, a banking analyst with Washington Research Group, commented: 'By becoming bank holding companies, the Chinese companies will be 'ring-fenced' by their domestic supervisors and will be subject to U.S. law and regulation."

- Front Page Headline, Daily Telegraph U.K. – "Germany's Warning: Financial Aid Will Be Halted Unless Greece Commits to Bailout Agreements. Government Ministers in Berlin warn they will withhold international aid to Greece in a move which could trigger a new, damaging countdown to default in Athens. Amid escalating anger in Berlin over the anti-euro backlash following elections in Athens, tomorrow Greece will receive a 4.2 billion euro cash injection as part of its 130 billion euro March bailout. The euro zone has blocked a further 1 billion euro payment, amid uncertainty over Greece's political future. Athens has a 3.3 billion euro bond issue maturing next Friday. However, Germany's Foreign Minister Guido Westerwelle noted: 'Greece must recognize what's going to happen if it repeals agreements that have already been made. If Greece were to terminate the reform process that it has undertaken, then I can't see how the respective tranches of financial aid can be paid out.' Wolfgang Schaeuble, Germany's Finance Minister, suggested: 'If Greece decides to leave the euro zone, we cannot force it to stay."

Germany's Chancellor Angela Merkel   Source Reuters

THURSDAY, MAY 10TH

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 1,000 to a seasonally adjusted 367,000 in the week ended May 5th. from a revised level of 368,000, previously reported as 365,000, while continuing claims declined by about 61,000 in the week ended April 28th. About 6.42 million people received some form of state or federal emergency or extended benefit in the week ended April 21st.

- The General Administration of Customs reports China's trade surplus widened to $18.4 billion (U.S.) in April, up from $5.4 billion (U.S.) in March; citing exports rose by 4.9% on a year-over-year basis while imports rose by only 0.3%. In a note to clients, Dariusz Kowylczyk, an analyst at Credit Agricole CIB, observed: "The weak import number bodes ill for China's gross domestic product (GDP) growth. It should be a wake-up call for policy makers to do more to stimulate domestic demand and is likely to lead to further elevated fiscal spending and monetary easing."

- The Commerce Department reports the U.S. trade deficit widened by 14.8% to $51.8 billion (U.S.) in March, citing a 5.2% gain in imports, reflecting higher demand for crude oil, computers, automobiles and televisions. Dean Maki, chief economist at Barclay's Capital in New York commented: "The 2.9% gain in exports doesn't suggest the (economic) slowdown in Europe is dramatically affecting GDP growth in the U.S."

- The Office for National Statistics reports U.K. factory output rose by 0.9% in March, citing producers of chemicals, electronics and transport equipment led a recovery from disruptions caused by heavy snowfalls in February.

- Greece's statistics service reports the nation's unemployment rate rose to 21.7% in February, following a revised 21.3% level in January; while the youth unemployment rate – ages 15 to 24 – rose to 54%

A worker leaves an Athens unemployment office on May 10, 2012 Source: Reuters

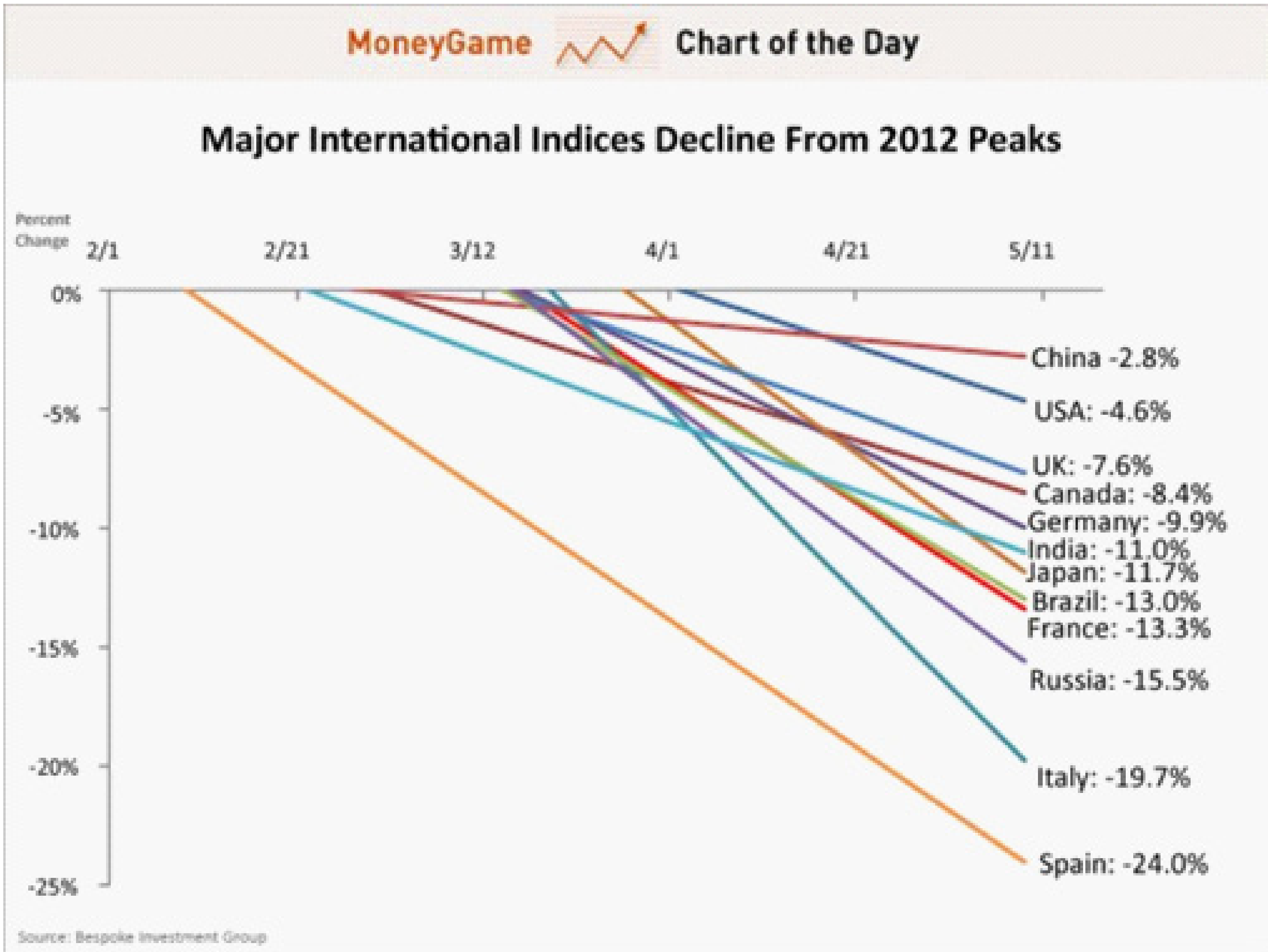
- Front Page Headline, Financial Times – "JP Morgan Loses $2 Billion (U.S.) in Proprietary Trades. JP Morgan Chase Chief Executive Officer Jamie Dimon announces $2 billion (U.S.) in trading losses on credit derivatives blaming 'errors, sloppiness and bad judgment.' Mr. Dimon said the mark-to-market losses were incurred by the bank's chief investment office – a unit established to invest excess deposits – and which has been controversial after hedge funds alleged it was taking big proprietary risks. The proposed 'Volcker rule' would ban proprietary trading by U.S. banks, so today's losses are likely to stiffen regulators' resolve in that regard."

- Front Page Headline, - "Chinese Sovereign Wealth Fund Curtails Buying European Government Debt. Gao Ziqing, Director of the China Investment Corp. (CIC) announces: 'The fund is looking at opportunities in Europe, but we don't want to buy any (more European) government bonds.' European leaders have tried to attract Asian investors to purchase excess European sovereign debt. Both China and Japan have been supportive in the past, in part because Europe is one of their biggest export markets. The moratorium by China occurs amid political deadlock in Greece, the bank crisis in Spain and signs of a deepening euro zone economic recession.

- Front Page Headline, Financial Times – "Moody's Issues Capital Warning to Global Banks. Last February, Moody's Investors Services announced it was placing 17 global banks on review for a downgrade, citing 'vulnerabilities' in the companies' vast and volatile capital markets businesses. In an interview with the Financial Times, the rating agency's banking analysts reiterated: 'Moody's is updating its financial ratings to take into account the historical tendency of banks to leverage their balance sheets and arbitrage global financial rules, often to the detriment of the banks' own health and the safety of the wider banking system.' Mark LaMonte, Chief Credit Officer of Financial Institutions at Moody's elaborated: 'These global banks are constantly moving into and out of new products. The regulatory rules regarding risk weighting may not be able to keep pace with them.' Moody's review will likely be completed by mid-June."

- Front Page Headline, Financial Times – "Spain Offered Time to Curb Deficit. Spain will be offered more time to hit the budget target deficits it agreed with the European Union (EU), but only if Madrid meets new conditions, including an independent audit of the restructuring plan for its troubled banks. The European Commission (EC), the EU's executive branch, has insisted on the extra conditions – which include ensuring more fiscal control over Spain's profligate regional governments – before allowing Madrid to delay its 2013 deficit target by a year. Spanish officials insist that they are not seeking any delay to the deficit targets, deemed by EU leaders as an essential part of the euro zone's strategy to resolve its financial crisis. The Spanish Government, led by Prime Minister Mariano Rajoy, has already ratified legislation totaling 27 billion euros of austerity measures."

- Statistics Canada reports its new housing price index rose by 0.3% in March – mirroring a similar increase in February – and led by Winnipeg, Ottawa, Toronto, Edmonton and Calgary



FRIDAY, MAY 11TH

- The Office for National Statistics (ONS) reports U.K. construction output declined by 4.8% in the 1st. quarter compared with the 4th. quarter of 2011, the weakest pace since the 1st. quarter of 2009. An ONS official noted that the decline would likely add 0.1% to the overall contraction of GDP. That would suggest that GDP shrank by 0.3% in the 1st. quarter, meaning the U.K. economy remains in a technical recession.

- Statistics Canada reports the nation's employment level, led by private sector and full-time positions, increased by 58,200 in April, following a March increase of 82,300, creating the largest consecutive two-month increase in more than 30 years. However, the official unemployment rate rose slightly to 7.3% from 7.2% in March.

- The Labor Department reports the U.S. producer price index (PPI) declined by 0.2% in April following no change in March, citing lower fuel and raw materials costs. The 1.9% increase in the PPI on a year-over-year basis was the lowest level since October 2009.

- The Thomson Reuters/University of Michigan preliminary index of U.S. consumer confidence rose to a reading of 77.8 in May, following a level of 76.4 in April, citing lower fuel costs are aiding household budgets

- The National Bureau of Statistics reports China's steel output was 60.57 million metric tons in April on a year-over-year basis, down 1.6% from 61.58 million metric tons in March. Separately, China's industrial production rose by 9.3% in April from a year ago.

- Front Page Headline, Globe and Mail – "Spanish Bank Reform Disappoints Investors. Spain orders its banks to increase their capital tier by 30 billion euros ($39 billion U.S.) – in addition to the 54 billion euros ordered in February – against mounting losses from toxic real estate loans and mortgages. In addition, Spain's Finance Minister Luis de Guindos announced that banks have until the end of 2012 to transfer their property holdings into asset management firms for a fire sale. For banks unable to raise the necessary funds, the government will purchase 5-year bonds – convertible into bank shares – at a yield basis double that of an equivalent government 5-year bond. The Government also ordered an independent audit on loans and real estate assets across the banking sector, as the European Union had requested. At a news conference, Spain's Deputy Prime Minister Soraya Saenz de Santamaria commented: 'This reform will grant credibility and build confidence in the financial sector, increase credit flow in our country and lead to home sales at reasonable prices." However, while analysts welcomed the measures and the recent government nationalization of Bankia SA, many accuse the government of acting too late to a problem that was diagnosed years ago.

CLOSING LEVELS FOR FRIDAY, MAY 11TH.		WEEKLY CHANGE
Dow Jones Industrial Average	12,820.60	– 217.67 points
Spot Gold Bullion (June)	$1,584.00 (U.S.)	– $61.20 per oz.
S&P / TSX Composite	11,694.67	– 176.56 points
10-Year U.S. Treasury Yield	1.85%	– 3 basis points
Canadian Dollar	99.97 cents (U.S.)	– 0.58 cent
U.S. Dollar Index Future (Spot Price)	80.301 cents	+ 0.793 cent
WTI Crude Oil (June)	$96.13 (U.S.)	– $2.36 per barrel

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