Monday June 4th, 2012

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, June 4th

Front Page Headline, New York Times -

"Merrill Losses Withheld from Shareholders Before Bank of America Vote.

Monday, June 4th

- Days before Bank of America shareholders voted to approve the B of A's $50 billion (U.S.) purchase of Merrill Lynch in December of 2008, top bank executives were advised that losses at the investment firm would most likely hammer the combined companies' earnings in the years to come. However, shareholders were not informed about the looming losses, which would prompt a second taxpayer bailout of $20 billion (U.S.), leaving them instead to rely upon brighter projections from the bank that the takeover would make money relatively soon following its completion. What Bank of America's top executives, including its then chief executive officer, Kenneth Lewis, knew about Merrill's vast mortgage losses and when they knew it, emerged in court documents filed yesterday in a shareholder lawsuit being heard in Federal District Court in Manhattan. Mr. Lewis is a defendant in the suit, as are bank of America board members who recommended that shareholders approve the Merrill takeover. The filing in the shareholder suit includes sworn testimony from Mr. Lewis, in which he concedes that before Bank of America stockholders voted to approve the transaction, he had received loss estimates relating to the Merrill takeover that were far greater than reflected in the figures that had appeared in the proxy documents filed with regulators. (Shareholders rely upon statements made in proxy filings to decide whether to approve transactions their companies have proposed; plus companies must disclose all material facts which could be meaningful for shareholders trying to decide how to vote on such a transaction.) The B of A's purchase of Merrill, made during the depths of the financial crisis, was the culmination of an acquisition binge by Mr. Lewis which transformed Bank of America from its base in Charlotte, N.C. into a financial behemoth which could compete head-to-head with the biggest financial institutions on Wall Street. The disclosure, coming to light in private litigation, is likely to reignite concerns that federal regulators and prosecutors have not worked diligently enough to hold key executives accountable for their actions during the financial crisis." At Longwave Analytics, our previously expressed opinions of the ignorance and incompetence of Mr. Lewis are verified yet again. Pity this (now retired) banking executive who allowed his giant personal ego to rule his judgment and mislead his shareholders. See also, Economic Winter, The Clash of Cultures, February 2, 2009.

- The Commerce Department reports U.S. factory orders declined by 0.6% in April, following a revised drop of 2.1% in March – previously reported as a decline of 1.5% – the first two-month consecutive decline in more than three years. Separately, U.S. durable goods orders – for products expected to last for at least three years – were unchanged in April, while non-durable goods orders declined by 1.1%.

- Front Page Headline, New York Times – "MF Global Holdings Trustee Warns of Possible Claims against Jon Corzine. In a 275-page report, James Giddens, court appointed trustee for MF Global Holdings, states he may pursue claims against Jon S. Corzine; as well as Henry Steenkamp – the chief financial officer – and Edith O'Brien – an assistant treasurer – citing 'claims for breach of fiduciary duty and negligence, that may be asserted' against the three officials in the collapse of the brokerage firm. The report focuses on banks like JP Morgan Chase which received customer money in the chaotic days before the firm went bankrupt. Mr. Giddens stated he would decide whether to pursue litigation to recover money for customers, who are still missing about $1 billion (U.S.), within 60 days. The report also focuses on the tenure of Mr. Corzine, a former Democratic governor of New Jersey, who became MF Global's chief executive in early 2010 and immediately began transforming it from a sleepy commodities brokerage firm into something more akin to a mini-Goldman Sachs. As part of the transformation, he made huge investments in the debt of risky European nations, a gamble which incited a crisis of confidence that paved the way to the firm's collapse. In a statement, Mr. Giddens elaborated: 'As attempts were made to transform MF Global into a full-service global investment bank, management failed to add to its treasury department and technology infrastructure, which was needed to meet the demands on global money management and liquidity. My investigation has concluded that management's actions, along with the lack of sufficient monitoring and systems, resulted in customer property being used during the liquidity crisis to fund the extraordinary liquidity drains elsewhere in the business, including margin calls on European sovereign debt positions."

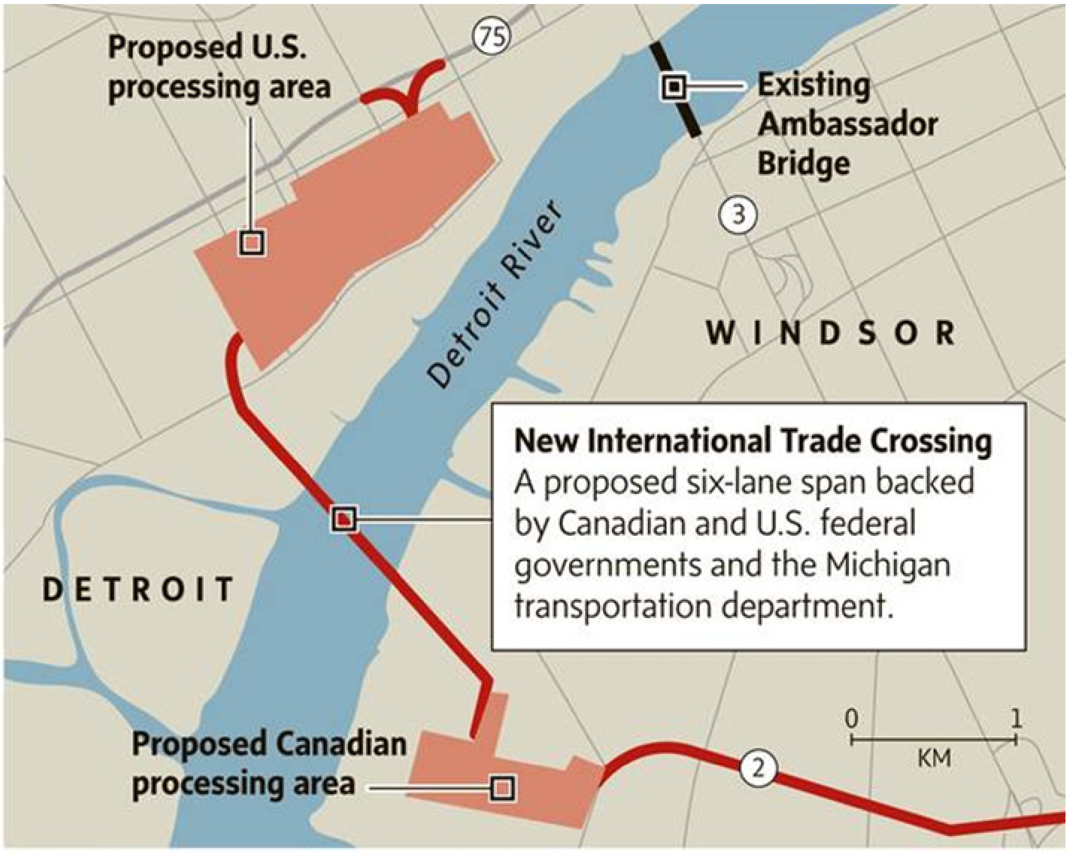
- Front Page Headline, Daily Telegraph U.K. – "Global Economic Slowdown Alert as World Money Supply Contracts. The most recent data show that the real M1 money supply – cash and overnight deposits – for China, the euro zone, Britain and the U.S. has been contacting since the early spring. Any further shrinkage risks a full-blown global recession. Clear signs of trouble are emerging in the U.S., until now the last bastion of economic strength. The New York Institute of Supply Management (ISM) reported its business index – a proxy for business demand – flashed a 'screeching halt' in May, plunging to a reading of 49.9 from a level of 61.2 in April, with anything below a reading of 50 denoting contraction. Unemployment is rising again after grim jobs data for April and May, indicating that the U.S. economy may have slowed below stall speed. The world money data compiled by Simon Ward at Henderson Global Investors show that real M1 growth in G7 economies and the leading E7 emerging powers peaked at 5.1% in November 2011 and has subsequently plunged to 1.6% in April. The data explain why commodity prices are falling hard, with Brent crude oil down to a 16-month low under $97 (U.S.) a barrel. Central bank governors and finance ministers from the G7 bloc are to hold an emergency teleconference call tomorrow to grapple with Europe's escalating sovereign debt crisis. There is mounting anger in North America and Asia over the failure of the Europeans to use their vast resources to contain the banking crisis in Spain."

Tuesday, June 5th

- The Reserve Bank of Australia (RBA) lowers its administered lending rate by 25 basis points to 3.50%. Issuing a statement, RBA Governor Glenn Stevens observes: "With modest domestic (gross domestic product) growth and a weaker, more uncertain international (economic) environment, the outlook for inflation affords scope for a more accommodative stance in monetary policy … Not only is China's economic growth moderating, but also, (economic) conditions elsewhere in Asia remain uncertain. While some Asian countries are recovering from natural disasters, that trend could be dampened by slower (economic) growth in China … In the near term, inflation is likely to remain within the lower part of a 2% – 3% range, although maintaining low inflation over the longer term will require some moderation in domestic costs, as the effects of the earlier high (AUD) currency level wane."

- Following its most recent monetary policy meeting, the Bank of Canada leaves its administered Bank Rate unchanged at 1%. In a statement, central bank Governor Mark Carney noted: "The outlook for global (GDP) growth has weakened in recent weeks. Some of the (economic) risks surrounding the European (sovereign debt) crisis are materializing and risks remain skewed to the downside. This is leading to a sharp deterioration in financial conditions … While the U.S. economy continues to expand at a modest pace, emerging markets are slowing a bit faster and somewhat more broadly than had been expected. As a result, modest global (economic) momentum and heightened financial risk aversion have lowered commodity prices … To the extent that Canada's economic expansion continues and the current excess supply in the economy is gradually absorbed, some modest withdrawal of the present considerable monetary policy stimulus may become appropriate. The timing and degree of any such withdrawal, however, will be weighed carefully against domestic and global economic developments." At Longwave Analytics, we would strongly argue that the global economy has been weakening for months and not just "in recent weeks" as the Bank of Canada alludes. As usual and as previously stated, the central bank Governor exhorts an uncanny grasp of the obvious well after the fact. Wakeup call for Mr. Carney: Waste not the rest of 2012 concerning yourself about the timing of the next Canadian Bank Rate hike, rather, given the bleak eco-political outlook for the U.S., realistically, we suggest you worry about Canada's GDP sliding into contraction territory.

- Front Page Headline, National Post – "CBO Warns U.S. Risks Fiscal Crisis. In its annual report on the long-term outlook for the federal budget, the Congressional Budget Office warns: 'The U.S. Government risks a fiscal crisis unless it makes significant changes in tax and spending policies. Without policy changes, within 15 years the U.S. national debt will exceed the historical peak set after World War II. In 1946, federal government debt amounted to 109% of the gross domestic product (GDP). This year, it's projected to reach 70% of GDP, up from 40% in 2008. By 2037, the national debt would be almost twice the size of the economy; assuring higher interest rates, slower economic growth and much greater painful choices for lawmakers than they face today. The growing debt would increase the probability of a sudden fiscal crisis, during which investors would lose confidence in the government's ability to manage its budget. Such a crisis would confront policy makers with extremely difficult choices. To restore investors' confidence, policy makers would need to enact spending cuts or tax increases, more drastic and painful than those which would have been necessary, had the adjustments been made sooner."



THE GLOBE AND MAIL » SOURCES: DETROIT FREE PRESS; AMBASSADORBRIDGE.COM; MICHIGAN DEPARTMENT OF TRANSPORTATION

- Front Page Headline, Globe and Mail – "Michigan, Ottawa Nearing New Agreement for Border Bridge. Sources familiar with the negotiations reflect: 'Chances are fairly good' an accord to construct a new multi-billion crossing down river from the existing Ambassador Bridge between Detroit, Mi. and Windsor, On. will be reached before the end of June. There is no greater conduit for Canada / U.S. trade than the bridge across the Detroit River. The thousands of trucks which cross the Ambassador Bridge each day carry about 25% of the annual merchandise trade between Canada and the United States. Political approval for the bridge from the Michigan State Legislature is the final hurdle."

- Front Page Headline, National Post – "Canada Set to Become #3 Global Oil Producer by 2030: CAPP. In its annual report, the Canadian Association of Petroleum Producers' Vice President Greg Stringham predicts: 'Resurging growth in Western Canadian conventional oil production and new oil sands investments are driving a positive outlook. Canadian oil is clearly on the global stage and this growth forecast will place Canada in the top three or four oil producers in the world.' CAPP's 2012 forecast revises last year's estimate of 3.7 million bpd total output by 2025 to 4.2 million bpd. This year's forecast is extended by five years and latest predictions indicate a staggering 6.2 million bpd in total oil production by 2030. CAPP expects output from conventional plays to rise to 1.2 million bpd by 2020, but scales back to their current levels of 1.1 million bpd by 2030."

OIL SANDS RAMP UP PREDICTED

CANADIAN CRUDE OIL PRODUCTION
MILLIONS OF BARRELS PER DAY

	2011	2015	2020	2025	2030
Eastern Canada	0.3	0.2	0.2	0.2	0.1
Western Canada					
Conventional	1.1	1.3	1.3	1.2	1.1
Oil sands	1.6	2.3	3.2	4.2	5.0
TOTAL	3.0	3.8	4.7	5.6	6.2

SOURCE: CANADIAN ASSOCIATION OF PETROLEUM PRODUCERS
JONATHON RIVAIT / NATIONAL POST

- Front Page Headline, Financial Times – "Moody's Downgrades German and Austrian Banks. Moody's Investor Service lowers its credit rating for Commerzbank and five other German banks; as well as the three largest Austrian banking groups, citing, 'the increase of further shocks from the ongoing Euro area sovereign debt crisis."

- Front Page Headline, Daily Telegraph U.K. – "Spain Pleads for EU Aid for Troubled Banks. In a speech to the Spanish Senate, Premier Mariano Rajoy stated: 'Our country is in an extremely difficult (financial) situation. I call upon Europe to stand by the mutual obligations of euro membership. Europe must say where it is going and show that the euro is an irreversible project that is not in danger, which helps nations in difficulty." Treasury Minister Cristobal Montoro confessed: 'Spain can no longer raise money because the (bond) market is no longer open. The risk premium (the yield spread between German bunds and Spanish bonds of comparable maturity) is telling us that Spain as a state has a problem accessing the (fixed income) market when we need to refinance our debt. The European institutions must open up and help us facilitate bank recapitalizations. This would avoid stigma and shift Spain's vast contingent liabilities onto the EU. Spain's economy is too big for the EU bailout machinery. Technically, we can't really be rescued."

Spain's Treasury Minister Cristobal Montoro Source: Reuters

Wednesday, June 6th

- Front Page Headline, Bloomberg News – "ECB Ready to Act as GDP Outlook Worsens: Draghi. In a Frankfurt press conference, European Central Bank President Mario Draghi stated: 'We monitor all (economic) developments closely and we stand ready to act as the euro zone's economy faces increased downside risks. However, I don't think it would be right for the ECB to accommodate other institutions' lack of action.' Mr. Draghi's remarks followed a meeting of the ECB governing council which decided to leave its administered lending rate unchanged at 1%, despite 'a few members' calling for a rate cut. Julian Callow, an economist at Barclay's PLC in London commented: 'Mr. Draghi is delineating the role of the ECB from that of governments, as he seeks agreement among European leaders regarding a road map to bolster the euro.'

- Front Page Headline, Wall Street Journal – "France Lowers Retirement Age for Some Workers. Following a cabinet meeting, Social Affairs Minister Marisol Touraine announced: 'The French government has passed legislation authorizing people, who have contributed to the pension system for at least 41 years, to retire at the age of 60. This reform will cost 1.1 billion euros ($1.37 billion U.S.) in 2013 and 3 billion euros ($4.11 billion U.S.) by 2017. The extra expenditure will be covered by increased payroll contributions by employers and employees alike and will affect about 110,000 people. Under the new plan, mothers with three or four children will also be able to retire at 60." Editor's Note: Moody's Investors Service recently stated that France's newly elected 'President Hollande has yet to dispel doubts surrounding his plans to balance public finances and boost GDP growth. Moody's expects some clarity to emerge in the second half of the year and post the legislative elections, scheduled for June 10th.and June 17th.'

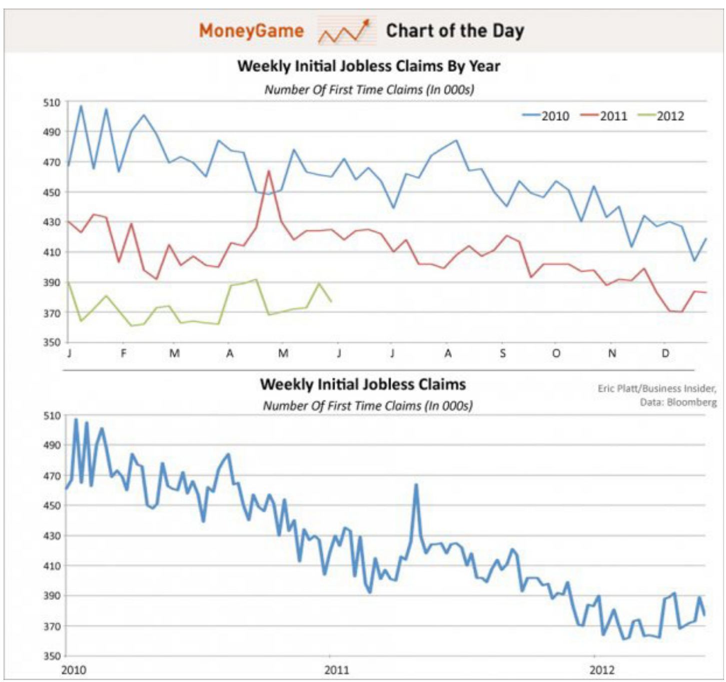
- In its latest Beige Book anecdotal economic review, the U.S. Federal Reserve reports: "Economic outlooks remain positive, but regional districts were slightly more guarded in their optimism. The U.S. economy expanded at a moderate pace in April and May, however, (financial) turmoil in Europe and political uncertainty in the U.S. worried some employers. While construction and lending were improving, hiring remained steady. Manufacturing continued to expand in most districts, with strength in autos and steel.'

Thursday, June 7th

- In testimony before the Joint Economic Committee in Washington, Federal Reserve Chairman Ben Bernanke warned: "The sovereign debt crisis in Europe poses significant risks to the U.S. economy and financial system, so it must be monitored closely. As always, the Federal Reserve remains prepared to take action as needed to protect the American economy and financial system in the event that European financial stresses escalate … A severe tightening of U.S. fiscal policy at the beginning of 2013 which is incorporated into current law – the so-termed fiscal cliff – if allowed to occur, would pose a significant threat to the (U.S. economic) recovery."

- Front Page Headline, Bloomberg News – "Germany Prepared to Support the Deployment of Current Euro Instruments: Merkel. At a joint press conference in Berlin with British Prime Minister David Cameron, German Chancellor Angela Merkel reiterated: 'In view of the current (sovereign debt) difficulties, it is important to emphasize that we have created the instruments of (financial) support in the euro zone. Germany is ready to work with these instruments whenever it is necessary; which represents an expression of our firm desire to keep the euro area stable.' In an interview with German ARD television, Chancellor Merkel stated: 'Germany supports a two-speed European Union, with a core group in the euro (currency) pressing ahead with deeper integration and the U.K. among others, relegated to Europe's margins. Those (countries) within the European Monetary Union must move closer together and we have to remain open. We always must make it possible for everyone to join the EU. Moreover, we must not stop because a particular country refuses to join as yet. We need more Europe, not only a monetary union, but also a fiscal union, i.e. more joint budget policy."

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 12,000 to 377,000 in the week ended Jun 2nd. while continuing claims increased by 34,000 to 3.29 million in the week ended May 26th. Those people who have exhausted their traditional benefits and are now receiving emergency or extended benefits under state and federal programs declined by 105,000 to 2.83 million in the week ended May 19th. According to a National Employment Law Project study, California, Florida, Illinois and Texas were among were among eight states that no longer qualified for emergency benefits as of May 12th. In the period of April 7th. through May 12th. about 370,000 Americans in 23 states stopped receiving emergency benefits, which can provide unemployment assistance for as long as 99 weeks.



- Front Page Headline, Bloomberg News – "Fitch Downgrades Spain's Sovereign Debt to 'BBB'. Fitch Ratings downgrades Spain's sovereign debt credit rating by three levels to 'BBB' from 'A' citing: 'The much reduced financing flexibility of the Spanish government is constraining its ability to intervene decisively in the restructuring of the banking sector and has increased the likelihood of external financial support. Spain's high level of foreign indebtedness has rendered it especially vulnerable to contagion from the ongoing (sovereign debt) crisis in Greece.' Elisabeth Afseth, an analyst at Investec Bank Plc in London commented: 'The positive moves (in Spanish bond yields) we have seen this week have been on a strange logic that things have become so bad that the authorities have to do something about it. The Fitch downgrade isn't really a surprise, given where the (bond yield) spreads have been, Spain's potential (financial) difficulties and the fact that Spain may have to seek (bailout) support." Separately, the Spanish Treasury auctioned a total of 2.07 billion euros ($2.5 billion U.S.) of 2-year, 4-year and 10-year maturities, slightly above the top of its target range. The average yield on the 10-year bonds rose to 6.044% from 5.743% at the April 19th. auction, having traded as high as 6.50% in the secondary market last week and at 6.11% subsequent to the auction today.

Shipyard workers protest to demand more work in Ferrol, Spain.
Source: European Press Agency

- Front Page Headline, Daily Telegraph U.K. – "Spain Too Big for EFSF / ESM. While the International Monetary Fund (IMF) thinks Spanish banks require 40 billion euros in new capital, any loan package may necessitate a higher amount, in order to restore shattered confidence in the country. Megan Greene at Roubini Global Economics believes Spain's banks will need as much as 250 billion euros, a claim that no longer appears extreme. New (financial) troubles are emerging (almost) daily. Yesterday, the Bank of Spain reported that Catalonia Caixa and Novagalacia will need a total of 9 billion euros in additional state funds. JP Morgan is expecting the final package for Spain to exceed 350 billion euros, while RBS predicts the rescue will 'morph' into a full-blown range of 370 billion euros to 450 billion euros over time – by far the largest in world history. In theory, the European Financial Stability Fund (EFSF) and the new European Stability Mechanism (ESM) can raise a further 500 billion euros between them; beyond the sums already committed to Greece, Ireland and Portugal. EFSF Chief Financial Officer Christophe Frankel assures: 'There is sufficient fire power available. In addition, the EFSF/ESM can leverage resources.' Eric Dor, from IESEF School of Management in Lille noted: 'Spain would necessarily withdraw from the EFSF as a creditor the moment it asks for bailout funds. This would instantly impact the residual core; since Italy's share would increase from 19% to 22%, France's from 22% to 25% and Germany's from 29% to 33%. The credibility of the guarantees given to EFSF bonds would collapse. This would incite an incredible turmoil on the European sovereign debt markets."

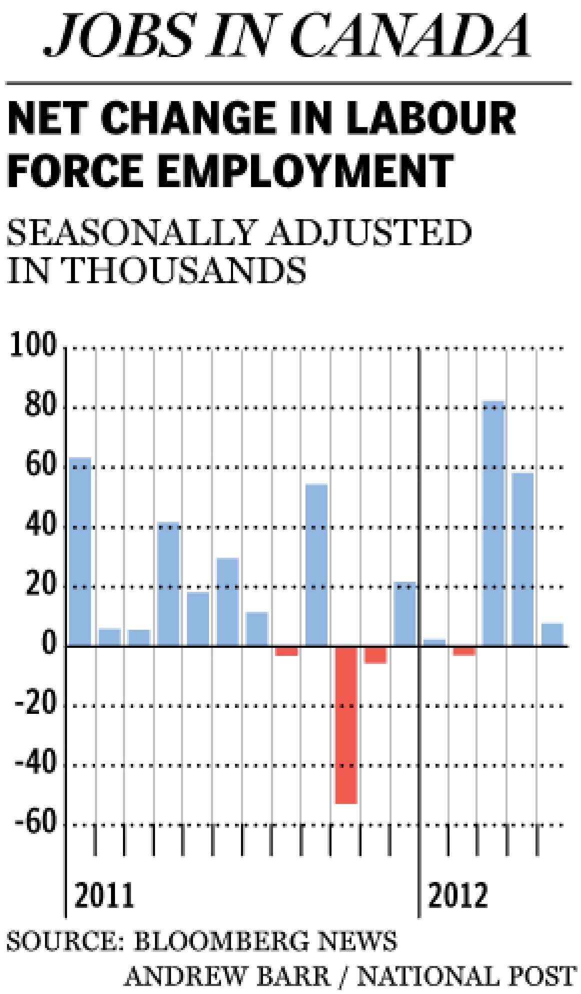
- Front Page Headline, MidasLetter –"Gold Standard, Gold Futures and Perception Management. The apparent end to momentum in the 12-year bull market in the gold (bullion) price is a carefully coordinated exercise in perception management. J.P. Morgan and a handful of the world's largest banks have been permitted the right to originate contracts for forward sales and purchases of various commodity products, far in excess of what is produced of each commodity annually. There is seldom any delivery of physical metals and the contracts are originated on completely false premises, equivalent to a casino where every game is rigged in favour of the house. Thus, the effect of real supply has been replaced by the effect of artificial supply. This represents a regulatory deficiency on the part of the Commodities Futures Trading Commission at a minimum, and at worst, outright criminal fraud and collusion among the U.S. Government, the banks and the market operators themselves. CFTC Commissioner Bart Chilton has admitted on behalf of his agency that they are of the opinion that certain entities are engaged in manipulative and unlawful practices in the futures markets, and announced an investigation was under way – four years ago. No results from the investigation have materialized because the apparent end to the momentum in the 12-year bull market in the gold (bullion) price is a carefully coordinated exercise in perception management. The banks will forever be able to lay legitimate claim to the pursuit of profit as the primary motivation for exploiting the regulatory aberration that permits and even abets fraud on such a large scale. The government will never admit to active collusion. CNBC, Bloomberg, the Wall Street Journal et al refuse to extend their line of inquiry into the factors controlling the price of gold beyond superficial fundamentals, such as jewelry demand and store-of-value investor demand. This perception management apparatus has now become so finely tuned that the gold price is rather deftly handled upward and downward in movements that serve the requirements of the two parties operating the scam. For the banks, reliable risk-free profit and for the government of the United States, the perception that the U.S. dollar is a safer haven than gold. The current continuous downward pressure on gold is undertaken to create the reality of a gold price that declines below its 52-week low. That would, in the invisible deliberations of the fraud participants, end the perception of gold as a safer store of value than U.S. Treasury bills, widely understood to be a key component of keeping the U.S. dollar lie alive. The Bloomberg headline of May 29th. is precisely the objective of anti-gold dollar defenders: "Gold Set for Worst Run Since 1999 as Dollar Strengthens." The U.S. Dollar lie is complete. When you're living a lie, perception outweighs the importance of reality, and that is optimally here achieved. The second part of the elaborate perception management ploy is that the third round of U.S. stimulus will coincide perfectly with the re-emergence of the U.S. deficit and debt position at the top of the new heap once Europe has fallen the rest of the way apart. Stimulus will be required then, because the banks which are the recipients of the stimulus are subject to conditions that result in substantial proportions of that money being invested into U.S. Treasurys, which is essentially the mechanism by which the United States government counterfeits its own currency to the detriment of U.S. dollar-denominated sovereign reserve currency positions and its own population. Thus, the objective of the perception management exercise – the condition where selling U.S. debt is just slightly more egregious in a net-net evaluation of sovereign reserve value than buying more of it – is achieved. So, the U.S. can continue bullying the rest of the world around because theoretically, we are all unfortunate passengers in the same boat. The problem with this strategy, as the perpetuals likely comprehend perfectly, is there is a point where the math can simply no longer support the illusion. That point becomes visible in the not-too-distant future. That is when all the major currencies collapse into the black hole of debt, whose traction is so strong that nothing in proximity can escape it. For gold (bullion) to fall below its current 52-week high implies a price of $1,543.00 (U.S.) an ounce. That's only about $50 (U.S.) from where we are today. The fact that the ongoing futures market fraud has yet been unable to drive the price down below that mark is evidence of the growing demand for gold, in view of the inevitable outcome for currencies outlined above. As Sprott U.S.A. CEO Rick Rule so succinctly explains: 'Gold isn't somebody's promise to pay (like currencies) – it is payment.' So, China continues to accumulate gold bullion to offset its U.S. dollar reserve risk, while other nations, such as the Philippines, Kazakhstan and Mexico do so more overtly. The inflection point at which the price of gold bullion explodes to the long-awaited stratosphere (taking silver and PGM's along with it) is exactly the moment at which it becomes apparent that what's (currently) happening in Greece and Spain will engulf Italy, France, Germany, Great Britain, and ultimately, the United States of America.

Friday, June 8th

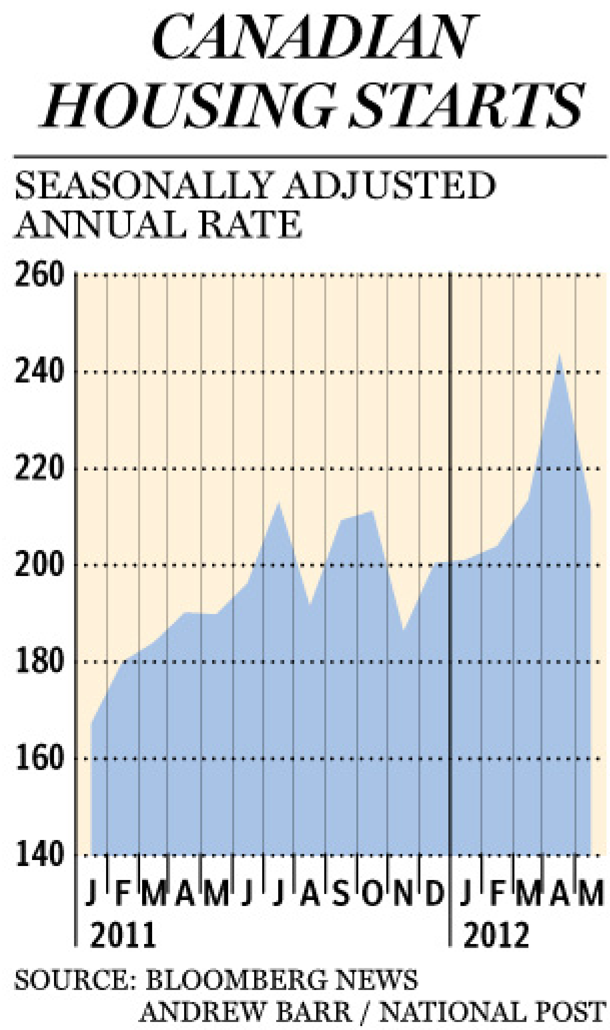
- Front Page Headline, Bloomberg News – "U.S. Political Risk May Result in Rating Downgrade by 2014: S&P. In a new report, Standard and Poors warns: 'The credit strengths of the U.S. include its resilient economy, its monetary credibility and the American dollar's status as the world's key reserve currency. Weaknesses include its fiscal performance, its debt burden and what we perceive as a recent decline in the effectiveness, stability and predictability of its policymaking and political institutions; particularly regarding the direction of fiscal policy … Last summer's debt ceiling debate raised some concern about Congressional commitment to avoiding a default on U.S. Government debt. Although the 2012 elections could resolve the U.S. fiscal debate, S&P sees this outcome as unlikely. Politicians will likely avoid a sudden fiscal adjustment at the end of this year, which is part of the current law; as they seek to support an economy beset with an 8.2% (official) unemployment rate. S&P expects politicians in Washington will (not only,) extend the 2001 and 2003 tax cuts indefinitely, (but also,) index the alternative minimum tax for inflation after 2011. Recent shifts in the ideologies of the two major U.S. political parties could raise uncertainties about the government's ability and willingness to sustain public finances consistently over the long term."

- Elstat reports Greece's gross domestic product (GDP) contracted by 6.5% on a seasonally adjusted annual basis during the 1st. quarter of 2012; against an economic backdrop of painful wage cuts, tax increases, record unemployment and following a 7.5% contraction in the 4th. quarter of 2011. Elstat also reported Greek industrial production declined by 2.2% in April, suggesting the economy is continuing to deteriorate in the 2nd. quarter.

- Statistics Canada reports the nation's employers added 7,700 jobs in May, the fewest in three months, leaving the unemployment rate unchanged at 7.3%



- Statistics Canada reports the nation's merchandise trade recorded a deficit of $367 million (CAD) in April, following a revised surplus of $152 million (CAD) in March. Exports declined as industrial goods and materials fell by 5.8% to $9.34 billion (CAD) and machinery and equipment shipments dropped by 3.1% to $6.68 billion (CAD). Imports rose by only 0.1% to $39.5 billion (CAD), the fifth consecutive monthly increase. Separately, Canada Mortgage and Housing Corp. (CMHC) reported the nation's housing starts declined by 13% to an annual pace of 211,400 units in May.



- Front Page Headline, National Post – "The Human Cost of the Euro Zone Crisis: Rocco Rossi. In an op-ed, a Spanish reporter for World Politics describes what life is like when 'Down and Out in the Euro Zone'. At age 50, his factory closed and he lost his job. Two years later, his money ran out and so did his wife and young daughter. At age 55, he was walking the Camino de Santiago in Spain. That's where I met him. During the Depression, many 'rode the rails' in Canada and the United States. Enrique, however, has been walking the Camino – a thousand year-old pilgrimage route – continuously, for over three years. His well-worn shoes, clothes and two carrying bags represent the sum total of his worldly possessions. He sleeps out most nights and his favourite spots are cemeteries. 'They are quiet', he explained. 'No one bothers me there'. He looked for work for years and still does. However, he's largely given up hope that he can return to the life he once had. He doesn't want to beg and can't afford a bus ticket or a place to stay, so he walks. A proud man who values working to support himself, he does odd jobs along the way for food and the odd coin. He's picked apples and cherries in Bierzo; gutted fish in Galicia; cut and stacked hundreds of cords of wood in Navarre; harvested grapes in the Rioja; loaded potatoes in Palencia; weeded gardens in Castille; and milked cows, goats and sheep everywhere in between. For one week each month he can stay in a monastery in Santiago for 1.5 euro a day. That gets him a bed, a hot shower and three meals. He can only stay there for a week each month, though, because of the rules – and because he needs the other three weeks to raise the 10.5 euros. When on the move, Enrique walks an average of 30 km a day. He's covered almost 27,000 km in the last three years – two-thirds the circumference of the Earth. Politics makes little difference to Enrique – he lost everything under the socialist regime. The 'austerity' measures of the current conservative government have no relevance to him. Walking and sleeping out have not been any different under either government. He is not the only 'economic pilgrim' on the trail. Not one of the Spanish parents I met walking expect their children to work in Spain when they graduate. All are encouraging their children to learn German, English or Mandarin as passports to greater opportunity. Many of those whose children have already graduated have seen them leave for the U.K., Germany or the Netherlands. The official unemployment rate in Spain is almost 25% – numbers North America hasn't seen since the Great Depression. Youth unemployment is over twice that. Moreover, those numbers don't include people like Enrique, who are completely off the statistical grid, or those who have gone elsewhere. Spending well beyond its means didn't help Spain's government create the sort of diversified economy which could absorb the thousands of university students graduating each year. Nor, did building thousands of new apartments, factories and offices with cheaply borrowed money, ensure that there would be buyers in the end. In fact, for people like Enrique, the only silver lining to the massive real estate bubble that devastated Spain, is that there are now many empty buildings within which to squat. It's not much better in the countryside. Near Ponferrada, I came across Antonio, who was out herding his 500 sheep in the hills. He always has meat, milk and cheese, but it cost him over 1,000 euros to have his sheep shorn this year and he received only 50 euros for the wool. The price he receives for meat and milk has declined over the last three years and the week before we met, he lost 23 of his sheep to wolves. Thankfully, he is still able to make ends meet because his wife has found a part-time job helping in a local restaurant, which services the growing number of pilgrims in the region. The recent headlines about the 'euro crisis' and 'downgrading of credit ratings' and 'currency fluctuations' simply don't capture the very significant personal toll which is being experienced in Spain each and every day."

  Front Page Headline, National Post – "Big Six Canadian Banks Could Weather Housing Crisis: Fitch. In a Toronto presentation, Christopher Wolfe, a managing director in Fitch Ratings' financial institutions group stated: 'Canada's six biggest banks could face residential real estate losses from $4.1 billion (CAD) to $41.5 billion (CAD), based upon Fitch's five stress scenarios, ranging from 1% to 10%. Generally, any of those scenarios, in and of themselves, don't seem to create any severe capital shortfalls."

CLOSING LEVELS FOR FRIDAY, JUNE 8TH.		WEEKLY CHANGE
Dow Jones Industrial Average	12,544.20	+ 425.63 points
Spot Gold Bullion (August)	$1,591.40 (U.S.)	– $30.70 per oz.
S&P / TSX Composite	11,500.63	+ 139.43 points
10-Year U.S. Treasury Yield	1.64%	+ 19 basis points
Canadian Dollar	97.43 cents (U.S.)	+ 1.22 cent
U.S. Dollar Index Future (Spot Price)	82.439 cents	– 0.36 cent
WTI Crude Oil (August)	$84.10 (U.S.)	+ $0.87 per barrel

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

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