Monday June 25th, 2012

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, June 25th

Front Page Headline, Bloomberg News -

"Merkel Stiffens Resistance to Euro Zone Debt Sharing.

Monday, June 25th

- In a speech to Germany's Stability Council in Berlin, German Chancellor Angela Merkel dismissed 'eurobonds, eurobills and European deposit insurance with joint liability and the like, as economically wrong, counterproductive and contra to the German constitution. It's not a bold prediction to say that in Brussels most eyes – all eyes – will be on Germany. When I think of the approaching EU summit on Thursday, I'm concerned that once again the discussion will focus too much on all kinds of ideas for joint liability and not enough about improved oversight and structural measures." Eric Ward, a fixed income strategist at Lloyd's Banking Group Plc in London commented: 'Chancellor Merkel is following a very careful strategy. Firstly, (there) was the fiscal pact, which most EU countries are scheduled to ratify in July and secondly, extending Brussels' control over national budgets."

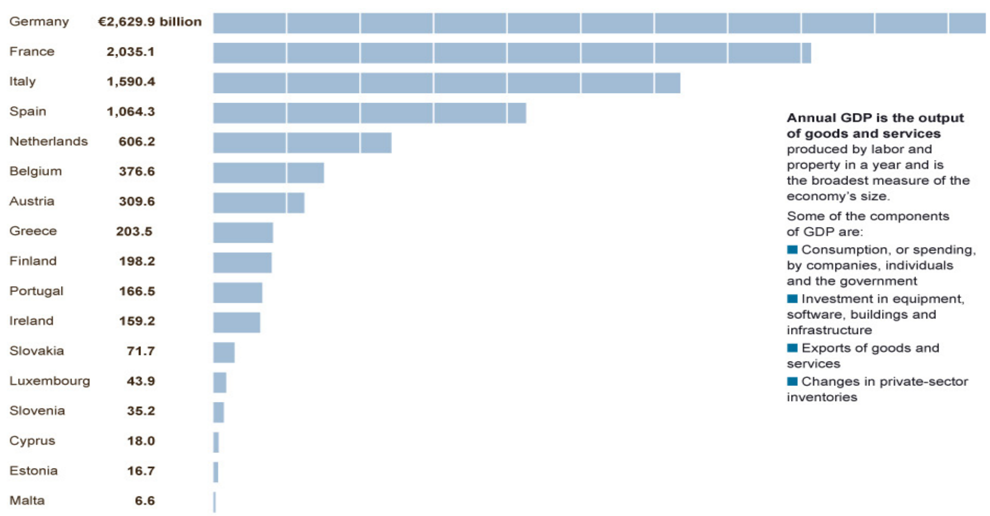
German Chancellor Angela Merkel addressing Stability Council.
Source: Markus Schreiber/AP Photo

- Front Page Headline, Globe and Mail – "Greece's Finance Minister Resigns. Greek Prime Minister Antonis Samaras accepts the resignation of Finance Minister Vassillis Rapanos for health reasons. Separately, in a policy statement Greece's new coalition government announced: 'The new government will aim to extend by at least two years the deadlines for it to impose austere fiscal reforms, in order to support (domestic) demand, development and employment. This way the final fiscal target can be achieved without further cuts to salaries and pensions or the public investment program; but via curbing waste and the targeted fighting of corruption, tax evasion and the black economy."

- Front Page Headline, Wall Street Journal – "Moody's Cuts Ratings of 38 Spanish Banks. Moody's Investors Service downgrades the credit ratings of 38 Spanish banks by one to four levels, citing the reduced creditworthiness of Spain and expectation that the banks' exposure to commercial real estate will likely result in higher losses. Separately, the Spanish government formally requested European Union (EU) aid to help in the refinancing of its banking industry; a move that Madrid hopes will help bolster the banks' balance sheets which have been decimated by a five-year property fiasco and has left them exposed to hundreds of billions of euros of loans to builders and developers. Spanish banks have already set aside about 100 billion euros ($125 billion U.S.) to cover property-related losses since 2008. Also, they must add at least another 80 billion euros to meet new capital requirements and more strict provisioning regulations. The rating downgrades reflect Moody's view that the ability of the Spanish government to provide support to Spanish banks has declined. Moody's also noted that many banks don't have sufficient earnings or capital to withstand potential financial stresses."

- Front Page Headline, Wall Street Journal - “Cyprus Requests Aid from Euro Bailout Fund. In a statement: ‘The Government of the Republic of Cyprus has today informed the appropriate European authorities of its decision to submit to the euro area member states a request of financial assistance from the European Financial Stability Fund (EFSF), or the European Stability Mechanism (ESM). The purpose of the required assistance is to contain the risks to the Cypriot economy, notably those arising from the negative spillover effects through its financial sector, due to its large exposure in the Greek economy.’ The Cypriot government was forced to seek external aid after Cyprus Popular Bank Plc – the country’s second largest bank – formally asked the government to recapitalize it. The bank suffered a 3.65 billion euro loss stemming from Greece’s recent 200 billion euro debt restructuring. The bank has also encountered mounting non-performing loans in Greece – as well as in Cyprus – while the Greek economy grinds through its fifth year of recession. The government’s support means Cyprus will face contingent liabilities of at least 1.8 billion euros in helping to keep the bank afloat, something that will push the island’s public finances deep into the red.”

GROSS DOMESTIC PRODUCT IN 2012 – European Commission* Estimates



*The executive arm of the 27-member European Union, of which 17 member states use the euro.

(Last updated May 22, 2012)
The Wall Street Journal

- Front Page Headline, National Post – “Is This 1931 All Over Again


The Mail and Empire.

GREAT BRITAIN ANNOUNCES SUSPENSION OF GOLD STANDARD TO HALT WITHDRAWALS THREATENING COLLAPSE OF STERLING

Canada Will Maintain Gold Basis, Says Bennett

London Stock Exchange Closed For Day; Banks Carry On Without Halt

Dominion Not Bound by Lead Of Motherland

Exchanges in Dominion, U.S. May Not Open

Expect Canada Will Stand Up In Gold Move

White Sees Step Taken by Britain As Constructive

Million In Gold Help For Dollar Of Canada In U.S.

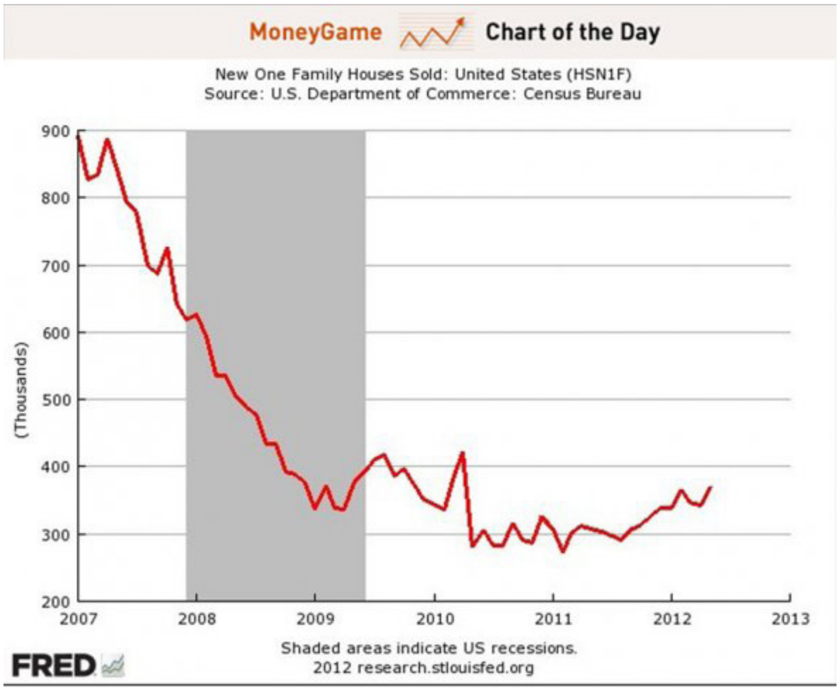
Appeal For Calm By Party Leaders Britain Is Sound

The September 21, 1931 edition of the Mail and Empire. Source: National Post files

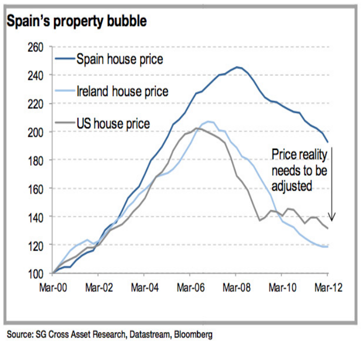
'The parallels between Europe in the 1930s and Europe today are stark, striking and increasingly frightening,' write economists Bradford DeLong and Barry Eichengreen. 'We see unemployment, youth employment especially, soaring to unprecedented heights. Financial instability and distress are widespread. There is growing political support for extremist (political) parties of the far left and far right.' The ominous (economic) clouds on the horizon are uniting forecasting pundits who usually traverse little common ground. In May 1931, the Kreditanstalt Bank, founded in Vienna by the Rothschild banking dynasty, suffered a bank run. Following a merger with an insolvent rival, its collapse ignited a crisis which left Germany and central Europe strewn with failed banks, caused defaults in Europe and Latin America, knocked the British pound off the gold standard and by October, forced the U.S. Federal Reserve to raise its administered discount rate by two percentage points." At Longwave Analytics, we have written extensively about the economic parallels to the third Kondratieff Winter cycle of the 1930s, which is why we have no doubt that we are currently witnessing a repeat of same during the fourth Kondratieff Winter cycle. See also, Economic Winters – The Death of Paper Money, July 28/11 and the Ongoing Saga of the European Sovereign Debt Crisis, May 18/12.

- Front Page Headline, Financial Times – "EU Proposes the Rewriting of Euro Zone Budgets. According to a draft report obtained by the Financial Times, proposals likely to be discussed at a European Union summit on Thursday, June 28th. include the EU gaining extensive powers to rewrite national budgets for euro zone countries that breach debt and deficit rules. The proposals are part of an ambitious plan to modify the euro zone into a closer fiscal union, giving Brussels more powers to act like a finance ministry for all 17 members of the European Monetary Union (EMU). The report also outlines plans for a banking union and a political union. Under the plans for closer fiscal union, the European Commission would present detailed adjustments for a country in breach of its commitments. The changes would be put to a vote of all other EU countries."

- The Commerce Department reports U.S. new home sales rose by 7.6% in May to a seasonally adjusted annual pace of 369,000 units, citing lower mortgage rates, but offset by continuing difficult access to credit



- Front Page Headline, Financial Times – "Property Deals Plunge in Euro Zone Periphery. Property transactions in Europe's hardest pressed economies have crashed by 65% over the past year, highlighting the extent of investor reluctance to hold fixed assets in those countries seen as most in danger of exiting the euro zone. During the first three months of this year, the total value of commercial property transactions in Greece, Spain, Italy, Portugal and Ireland was 644 million euros. That figure compares with 1.8 billion euros in the first quarter of 2011, according to CBRE – the property services group – and nearly 6.5 billion euros for the same period five years ago. Peter Damesick, CBRE's chief economist for Europe, Africa and the Middle East commented: 'Investors are simply not willing to take the risk on the property at the prices which are still being asked in many of these struggling economies. The banks in those countries, which own much of the property, are being extraordinarily slow to write down the value further and crystallize losses on their balance sheets. The net result is that bargain hunters cannot find bargains, so nothing trades"

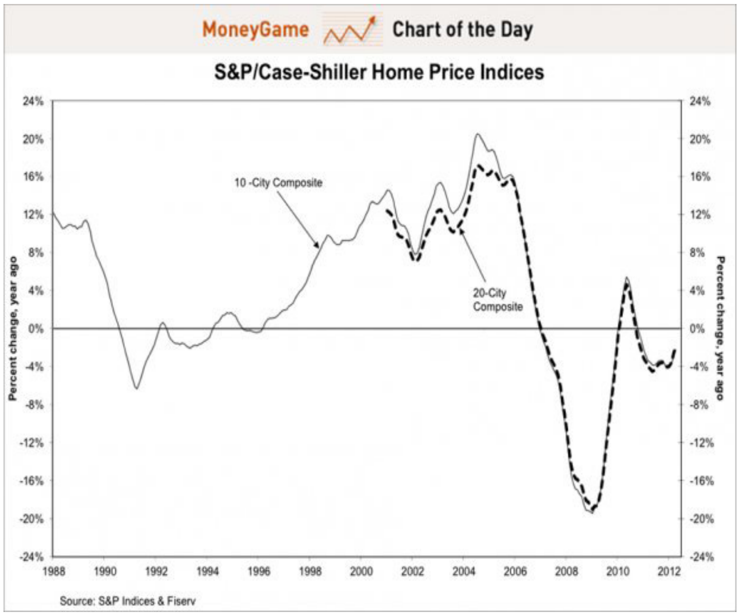


Tuesday, June 26th

- The New York-based Conference Board reports its U.S. index of consumer confidence declined to a reading of 62 in June from a revised level of 64.4 in May. Yelena Shulyatyeva, an economist at BNP Paribas in New York commented: "The unemployment situation continues to weigh on consumer minds. Usually consumers react to falling gasoline prices by increasing their spending, however this time around it looks like they're (being) a little bit cautious."

- Front Page Headline, National Post – "Germany Rejects EU Debt-Sharing Proposal. As expected, German Chancellor Angela Merkel rejected a debt-sharing plan to be presented at the EU Summit on Thursday by a committee chaired by European Union President Herman Van Rompuy. Chancellor Merkel was quoted as telling a meeting of one of the parties of her coalition government that Europe would not endorse total debt liability 'as long as I live.'

- The S&P/Case-Shiller index of property values in 20 U.S. cities fell by1.9% in April on a year-over-year basis, marking the smallest annual decline since November 2010



- Front Page Headline, National Post – "Mr. Euro Named Greek Finance Minister. The Greek government announces economist Yannis Stournaras – who was an integral part of a team that negotiated Greece's entry into the Euro – has been appointed to the post of Finance Minister. Political analyst John Loulis commented: 'Mr. Stournaras is a serious, respected person who will inspire some confidence in the markets. However, he is joining a bad government, where many old-style, spendthrift politicians occupy key positions. He will be forced to wage a hard battle against them. He is entering the wolf's lair and he won't survive without the Prime Minister's solid support."

Greek Finance Minister Yannis Stournaras
Source: Yorgos Karahalis / Reuters

- Front Page Headline, Financial Times – "Mervyn King Casts More Gloom over U.K. Economy. Bank of England Governor Sir Mervyn King and other central bank policy makers warn members of parliament that the U.K. economic situation had recently deteriorated so severely that they had destroyed their forecasts made just six weeks ago. Governor King stated: 'I am rather gloomy about the U.K. or other leading economies staging a robust recovery from the (financial) crisis until the euro zone resolves its problems decisively. In the last six weeks I am very struck by how much has changed since we produced our May Inflation Report. I am pessimistic about developments in the euro zone and I have no idea what is going to happen in the euro area. It is impossible to imagine a situation in which you just do not know what the situation will be in a part of the world that is close to you and represents half of your international trade. It makes it impossible to engage in any sensible forecasting. The confidence that is particularly lacking now is the confidence to invest today, rather than wait and see what happens to the euro area and other developments over the next two years. It is postponing decisions that companies fully expect to take at some point, but now is not the time to commit. Indeed, if everyone does that, then you do encounter a self-fulfilling downturn in the economy. I don't think any one country can get out of this easily on its own. It will require a great deal of international co-operation. That is why it is very striking that our friends and colleagues in the United States spend so much time worrying about developments in the euro area.' In the meantime, Governor King insisted that the bank of England had 'not run out of road' with quantitative easing, even though he accepted it might not be sufficient to build a self-sustaining economic recovery and he also hoped the new BoE and Treasury funding for lending plan would soon become operable."

- Front Page Headline, Financial Times – "Monti Lashes Out at Germany Ahead of EU Summit. Italian Prime Minister Mario Monti sets the stage for a tough fight with Germany at the European Union (EU) summit this week, insisting he will continue to push Italy's proposal to use euro zone bailout funds – the European Financial Stability Facility, or its successor the European Stability Mechanism – in an attempt to stabilize the fixed income market. Monti's frustration with Germany surfaced in a combative speech to parliament, citing he would not go to Brussels to 'rubber-stamp' pre-written documents and was ready to extend the two-day summit until Sunday night if needed, to reach agreements before the bond market reopened on Monday. Singling out Jens Weidmann, Mr. Monti stated that the Bundesbank president had 'badly misunderstood' his proposal to deploy euro zone rescue funds to bring down financing costs for countries such as Italy and Spain, which had honoured obligations to implement reforms and scale down their budget deficits. In his opinion, the summit was heading towards 'complete uncertainty.' Today, Italy was forced to auction two-year treasury bills at a yield of 4.71 – its highest level since December – and will face another test on Thursday with a scheduled auction of 5.5 billion euros of 5-year and 10-year bonds. Italian officials said they were extremely concerned how the fixed income market might react on Monday if the Brussels talks fail to break new ground. One government official noted Mr. Monti was sending two messages to Germany ahead of the summit: while he had foreign allies behind him, the EU risked the uncertain consequences of the impact on his government if bond traders / investors continued to demand ever higher bond yield levels."

- Front Page Headline, Financial Times – "Stockton, California Paves Way for Bankruptcy. Connie Cochran, city information officer for Stockton announces: 'We have concluded the 90-day confidential mediation process and do not have sufficient agreement to avoid insolvency.' Accordingly, Stockton City Council is expected to vote today on a plan that enables the City to declare bankruptcy to close a $26 million (U.S.) deficit in the budget for the fiscal year 2013, which begins on Sunday, July 1st. During the past three years, the City has dealt with $90 million (U.S.) in budget deficits, partly through drastic cuts in police and fire personnel. Stockton's financial woes stem from a decade of over-borrowing and overly ambitious revenue projections based upon a housing boom that went bust with the foreclosure crisis in 2009. Stockton, a river port with a population of 290,000, faces $319 million (U.S.) in outstanding debt, plus $450 million (U.S.) in health insurance and pension liabilities for municipal pensioners. James Spiotto, a partner at the law firm Chapman and Cutler, noted: 'Stockton will be the seventh U.S. municipality to file for bankruptcy this year and the largest U.S. city by population to file for chapter 9 bankruptcy protection since at least 1960.' Thirteen American cities, counties and other government entities filed for bankruptcy protection last year, the highest annual level in nearly two decades and more than double the six which filed in 2010. Since Congress added Chapter 9 to the bankruptcy code in 1937 to allow municipalities to seek protection, some 640 government entities have filed."

Wednesday, June 27th

- The Commerce Department reports U.S. durable goods orders – for products meant to last at least three years – rose by 1.1% in May. Jennifer Lee, an economist at BMO Capital Markets in Toronto commented: "This (report) comes as a relief that (American) businesses aren't completely cutting back, however, we must remain quite cautious since there is still considerable uncertainty regarding the outlook for U.S. economic growth."

- Front Page Headline, Globe and Mail – "Barclays Fined $450 Million (U.S.) for LIBOR Manipulation. British bank Barclays PLC will pay at least $450 million (U.S.) to British and American authorities to settle a probe into the manipulation of the London Interbank Offered Rate. (A daily banking poll determines at what Libor that banks will be able to borrow money from each other in 10 major currencies and over 15 periods ranging from overnight to 12 months). Regulators have been investigating allegations that several banks, including Barclays, sought to manipulate the Libor which underpins about $360 trillion (U.S.) of derivatives contracts worldwide and is also extensively used as a benchmark/reference interest rate for corporate lending. The U.S. Commodity Futures Trading Commission (CFTC) announced: 'Barclays attempted to manipulate Libor submissions – sometimes on a daily basis – over a four-year period beginning in 2005. The CFTC has ordered Barclays to pay a $200 million (U.S.) penalty, which represents the largest civil monetary penalty that it has ever imposed.' Barclays also settled with the U.S. Department of Justice and the U.K.'s Financial Services Authority (FSA) and will pay fines of $160 million (U.S.) and $92.8 million (U.S.), respectively. Other banks involved in the investigation include HSBC Holdings PLC, Royal Bank of Scotland, UBS AG and Citigroup Inc. Several banks have suspended traders over the investigations, but no criminal charges have yet been filed."

- Front Page Headline, Daily Telegraph U.K. – "German Chancellor Merkel Dismisses Spanish and Italian Pleas for Aid. On the eve of a critical European Union (EU) economic summit in Brussels, German Chancellor Angela Merkel addresses Bundestag members, citing the need to accelerate debt reduction and economic reforms in lieu of additional euro cash injections. Mrs. Merkel stated: 'I fear that at the summit we will talk too much about all these ideas about joint liability and too little about improved controls and structural measures.' Meanwhile, Spanish Prime Minister Mariano Rajoy pleaded: 'Spain needs to access Euro bailout funds from the European Financial Stability Facility (EFSF) or its successor the European Stability Mechanism (ESM) because we can't keep funding ourselves at the interest rates we're currently encountering in the fixed income market. There are institutions and also financial entities which cannot access the markets. It is happening in Spain, it is happening in Italy and it is happening in other countries.' Likewise on Tuesday, Italian Prime Minister Mario Monti warned his country's MPs on Tuesday that he would block agreement at the summit unless emergency measures to reduce financing costs were agreed. A senior euro zone official proffered: 'Monti needs to return to his parliament with a promise of EU assistance.

Thursday, June 28th

- Japan's Trade Ministry reports the country's industrial production declined by 3.1% in May – the most since the March 2011 earthquake – citing lower automobile output

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 6,000 to 386,000 in the week ended June 23rd. from an upwardly revised 392,000 in the week ended June 16th. Ryan Sweet, an economist at Moody's Analytics in West Chester, Pennsylvania commented: "We're going to see consumers continue to be cautious over the next several months. Consumer spending is going to be soft and I think it's because of the (weak) job market. The labor market is just not creating the wage income necessary to boost consumer spending."

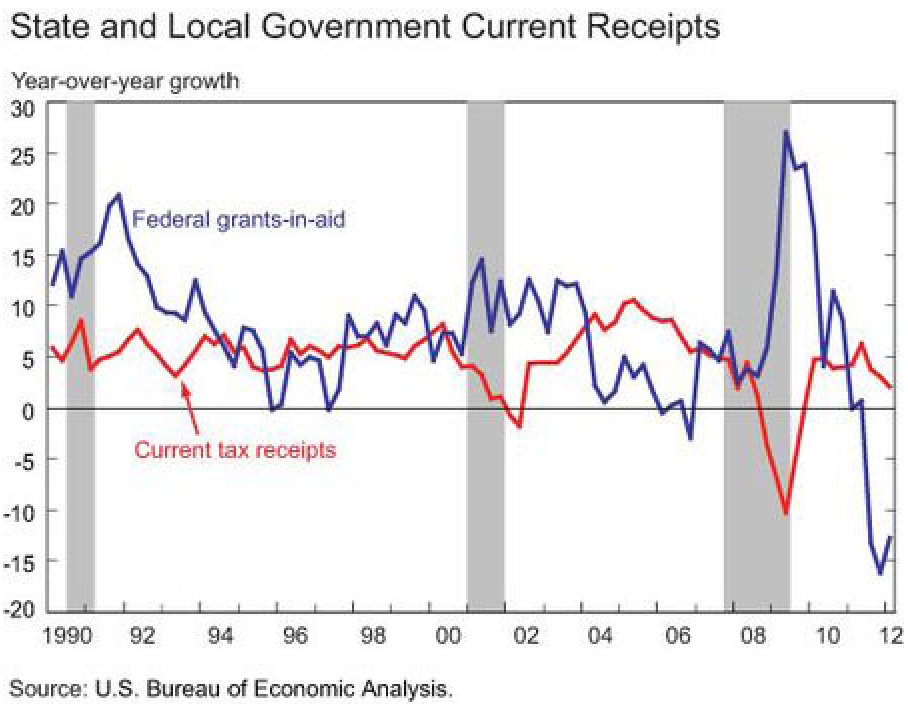
- Front Page Headline, Bloomberg News – "Merkel Outflanked in Crisis Summit as Hollande Backs Italy and Spain. French President Francois Hollande leads a rebellion against Germany's proposals for dealing with the European sovereign debt crisis, roiling Europe's political system with demands for immediate relief for hard pressed countries. Mr. Hollande put French endorsement of a German-inspired deficit control treaty on hold, while Italy and Spain withheld approval of a 120 billion euro ($149 billion U.S.) GDP growth boosting package unless Germany authorizes steps to calm their bond markets. By provoking an open breach with German Chancellor Angela Merkel, the new French leader overturned the austerity-first consensus that has dominated the debt crisis response and risked fracturing the Berlin-Paris alliance. Mr. Hollande informed reporters: 'Stability measures should be a priority before any other consideration."

- Front Page Headline, Globe and Mail – "U.S. House Vote Finds Attorney General in Contempt. The House of Representatives votes to hold U.S. Attorney General Eric Holder in contempt of Congress and prepared to open a legal battle that could test presidential and lawmakers' constitutional powers. The 255-67 vote proceeded following a largely partisan House debate, with Republicans turning aside Democratic maneuvers to avert the first ever contempt sanction against a sitting U.S. Cabinet member. The dispute centers on Justice Department documents sought by Republican lawmakers investigating a bungled gun-trafficking operation by Arizona-based agents of the Alcohol, Tobacco and Firearms (ATF), aimed at building a case against suspected smugglers of firearms to Mexico. AG Holder has refused to release documents reflecting how the DOJ reacted last year to lawmakers' questions about the 2009-10 operation. Last week, President Obama asserted executive privilege over the documents."

- Front Page Headline, Wall Street Journal – "U.S. Supreme Court Backs President Obama on Health Care Law. By a vote of 5-4, the U.S. Supreme Court upholds the law's mandate requiring Americans to carry health insurance or pay a penalty validated under Congress' constitutional authority to levy taxes. Chief Justice John Roberts wrote: 'The financial penalty for failing to carry health insurance possesses the essential of any tax,' i.e. producing revenue for the government. The Court also ruled that the government could not expel states from Medicaid under certain conditions."

- Front Page Headline, Business Insider – "RIM Announces 5,000 Employee Layoffs. Research in Motion announces a corporate restructuring over the balance of 2012. CEO Thorsten Heins resolved: 'I continue to work aggressively with all areas of the organization and the Board of Directors to implement meaningful changes to address our challenges, including a thoughtful realignment of resources; as well as honing focus within the company on areas which present the greatest opportunities.

- Front Page Headline, Liberty Street Economics – "U.S. State and Local Governments Suffer Revenue Shortfalls. Since property taxes and intergovernmental transfers account for upwards of 70% of state and local government revenues, the housing slump and financial crisis have negatively impacted those revenues during recent times to a significant degree. The Center for Budget and Policy Priorities estimates that states alone had to deal with in excess of $430 billion (U.S.) in budget shortfalls between 2009 and 2011, to comply with balanced budget requirements. This has forced huge job and spending cuts, reducing GDP by an estimated 0.4% in the 1st. quarter of 2012."



Friday, June 29th

- The Thomson Reuters/University of Michigan final index of consumer sentiment declined to a reading of 73.2 in June from a level of 79.3 in May. Separately, the Commerce Department reports consumer spending was unchanged in May, while April consumer expenditures were downwardly revised to a 0.1% gain, previously reported as a 0.3% increase. Meanwhile, U.S. incomes rose by 0.2% in May, the same as in April.

- Front Page Headline, Wall Street Journal – "German Lawmakers Approve Bailout Fund. Germany's parliament ratifies the euro zone's permanent bailout fund; as well as rules that enshrine German-style budget discipline in euro zone countries and most other European Union (EU) members, despite widespread criticism of Chancellor Angela Merkel upon her return from a European summit where she made major concessions on support for Spain and Italy. The votes in the German Bundestag, the lower house of parliament, marked a major step in a long effort to erect a robust firewall against financial crisis in the euro zone and install controls to enforce budget discipline upon European governments. Mrs. Merkel emphasized the ratification of the European Stability Mechanism (ESM) and the fiscal pact would be 'a signal of unity and determination – to those both at home and abroad – to overcome the European sovereign debt crisis lastingly, and a signal that Europe is our future.' Although an overwhelming majority of lawmakers from the governing coalition and the opposition approved the ESM and the fiscal pact, both measures have numerous critics in Germany. Even in Ms. Merkel's conservative led coalition, critics fear the permanent bailout fund will create mounting financial risks for German taxpayers as debtor nations in southern Europe press for increasingly more financial assistance. The fiscal pact, which seeks to force euro zone governments operate balanced budgets over time, has come under fire from the opposition Socialist Democrats for putting austerity measures over economic growth and employment."

CLOSING LEVELS FOR FRIDAY, JUNE 29TH.		WEEKLY CHANGE
Dow Jones Industrial Average	12,880.09	+ 239.31 points
Spot Gold Bullion (August)	$1,604.20 (U.S.)	+ $37.30 per oz.
S&P / TSX Composite	11,596.56	+ 161.02 points
10-year U.S. Treasury Yield	1.64%	– 3 basis points
Canadian Dollar	98.22 cents (U.S.)	+ 0.62 cent
U.S. Dollar Index Future (Spot Price)	81.649 cents	– 0.563 cent
WTI Crude Oil (August)	$84.96 (U.S.)	+ $5.20 per barrel

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