Monday July 23rd, 2012

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, July 23rd

Front Page Headline, Globe and Mail – "China's CNOOC Makes $15.1 Billion (U.S.) Takeover Offer for Nexen.

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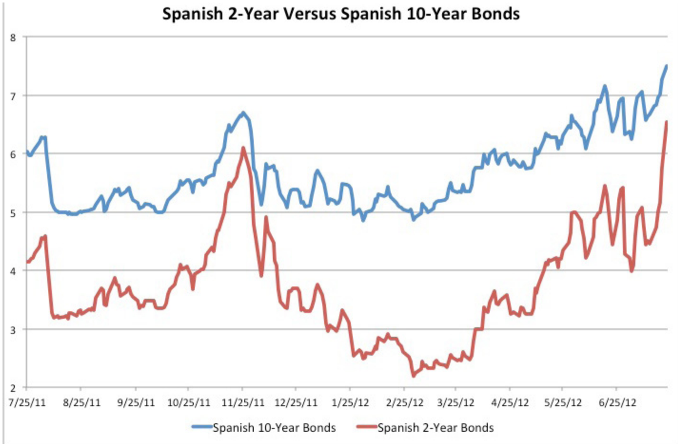
- The all-cash offer is worth $27.50 (CAD) per Nexen share, a 66% premium to the 20-day volume-weighted average for the company, which has not seen its shares reach that level in the last four years. Nexen is Canada's 12th. largest energy company, producing 213,000 barrels of oil equivalent per day. However, the company has struggled in recent years as its corporate pillars each faced problems. Its North Sea production was affected by a new U.K. tax scheme and its Gulf of Mexico drilling was hurt by the BP oil spill. The Nexen takeover offer, which will test Canadian foreign ownership rules, is a signal of a dramatic boost in confidence by Chinese acquirers since the Unocal deal failed in 2005. In a news release, CNOOC stated it would work to retain Nexen staff and management and make Calgary the headquarters for its North and Central American operations and for the far-flung Nexen assets."

- Front Page Headline, Globe and Mail – "Moody's Issues Negative Credit Rating Outlook for Germany, Netherlands, Luxembourg. Moody's Investors Service lowers its credit rating outlook to negative from stable for these top-rated countries warning: 'These states may have to increase support for indebted euro zone nations such as Spain and Italy. Moody's now has negative outlooks on all the countries whose balance sheets are expected to bear the main financial burden of support. Moody's is also citing an increased chance of Greece leaving the euro zone, which would forge a chain of financial sector shocks … that policy makers could only contain at a very high cost."

- Front Page Headline, Globe and Mail – "Spain Sinks Deeper into Economic Morass. The Bank of Spain reports the nation's economy contracted by 0.4% in the 2nd. quarter, following a decline of 0.3% in the 1st. quarter, coincident with the government's announcement that the recession would likely continue in 2013. The poor data compounds Madrid's pressing problems, chief among them how to reduce an unemployment rate of 24%, while simultaneously stabilizing a stricken banking system and the public finances. Meanwhile, the yield on Spain's 10-year government bonds rose by 25 basis points to 7.47%, well above the 7% danger level for long-term funding. Since the Spanish economy is larger than those of Greece, Ireland and Portugal combined, there are growing investor concerns that the European Stability Mechanism (ESM) might not be sufficient to cope with Spain's debt burdens, especially if Italy develops problems."



Source: Simone Foxman / Bloomberg News

- Front Page Headline, Reuters News – "Greece Now in a Great Depression: Samaras. During a weekend visit to Greece by a delegation of Greek – American Businessmen, Greek Prime Minister Antonis Samaras tells former U.S. President Bill Clinton: 'America had the Great Depression in the 1930s and this is exactly what we're experiencing in Greece: it's our version of the Great Depression.' Prime Minister Samaras was speaking just days before a 'troika' of Greece's international lenders arrive in Athens to review austerity measures needed for the debt-laden country to qualify for further bailout funds and avoid a chaotic default. Athens seeks to soften the terms of a 130 billion euro agreement of last March with the European Union, European Central Bank and the International Monetary Fund."

Greek Prime Minister Samaras and Former U.S. President Clinton. Source: Reuters News

- Front Page Headline, Daily Telegraph U.K. – "Ten Italian Cities Risk Bankruptcy. According to the Italian press, the cities at risk of bankruptcy include Naples, Reggio Calabria and Palermo in Sicily. Prime Minister Mario Monti hopes to reduce Italy's 2 trillion euro national debt by dissolving 64 of Italy's 107 provinces, addressing long-standing concerns that they are a wasteful and unnecessary tier of government. The government plans to cut 500 million euros from the provinces' budgets this year and a further 1 billion euros in 2013. Giuseppe Castiglioni, president of the provincial government association commented: 'With these spending cuts, we won't be able to guarantee the opening of the school year in September."

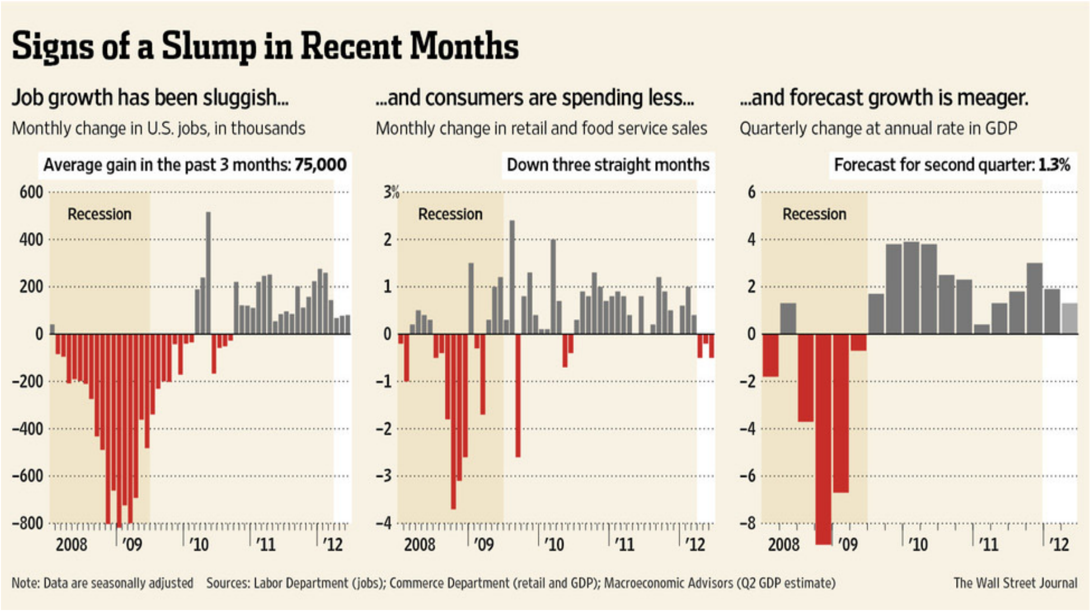
Tuesday, July 24th

- Front Page Headline, Globe and Mail – Moody's Lowers Credit Rating Outlook for EFSF to Negative. Moody's Investors Service lowers the outlook on the provisional 'AAA' long term credit rating of the European Financial Stability Facility to negative from stable. In a statement, Moody's noted: 'The change in the outlook of the EFSF reflects the present negative rating outlooks on all but one of its 'AAA' rated guarantors, namely Finland. Risks which could lead to a downgrade of the EFSF's credit rating would include some deterioration in the creditworthiness of euro area member states, particularly, Germany, France and the Netherlands."

- Front Page Headline, Reuters News – "Greece's Finances Hugely Off Track: EU Troika. Inspectors from the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF) – also known as the EU troika – return to Athens to perform a debt sustainability analysis to be completed in August; but already one official informed Reuters: 'Nothing has been done in Greece for the past three or four months because of the two elections held since May. The situation just goes from bad to worse and with it the debt ratio.' Another EU official proffered: 'The political dynamics are really going against the economic dynamics. The economic arguments may be clear, that we need to restructure Greece's debt if it is to be sustainable, but politically (within the EU) there's no willingness.' The debate continues whether Greece, after 2 1/2 years of economic crisis and two attempts to overhaul its economy with multi-billion euro bailouts, will remain in the euro zone over the long term."

- Front Page Headline, Financial Post – "Seven Extremely Rare Signs That Recession Risks in America Are Rising: Gluskin Sheff Chief Economist David Rosenberg.

1. The Philly Fed index of factory activity is in the red for the third consecutive month.
2. U.S. retail sales are also down for three months in a row (April – June).
3. A non-farm payrolls reading under 100,000 for July would be four months in a row.
4. Inflation is trending down with flat to negative readings over the past three months.
5. The ISM June manufacturing export orders index fell to its lowest level since July/09.
6. A recent 40% surge in grain prices will hit Americans' household budgets hard.
7. When your GDP is barely more than 1%, a 4% drop over the fiscal cliff will be ugly.



- Statistics Canada reports the nation's retail sales rose by 0.3% in May to a total of $38.9 billion (CAD), following a downwardly revised decline of 0.6% in April

- Front Page Headline, Daily Telegraph U.K. – "Europe Is Sleepwalking Towards Disaster: Economists. In a report for the Institute for New Economic Thinking, 17 leading euro specialists from Germany's Council of Economic Experts to the London School of Economics, warn: 'The euro is breaking down as a workable system and faces collapse with incalculable economic losses and human suffering unless there is a drastic change of course. Over the past several weeks, the economic situation in the debtor euro countries has deteriorated dramatically. The sense of a never ending financial crisis, with one domino falling after another, must be reversed. The last domino, Spain, is days away from a liquidity crisis. This dramatic economic situation is a result of a euro zone system, which as currently constructed, is thoroughly broken. While Europe's political waters have been muddied by disputes over eurobonds, debt-pooling, subsidies and fiscal union; none of these are necessary to break the logjam. The cause is a systemic failure. It is the responsibility of all European Union members, who were parties to its flawed design, construction and implementation, to contribute to a solution. Absent this collective response, the euro will disintegrate." **See also, Economic Winter – Turning and Turning in the Widening Gyre, July 24, 2012.**

Wednesday, July 25th

- The Commerce Department reports U.S. new home sales declined by 8.4% to an annual pace of 350,000 units in June, the weakest level since January, citing a dearth of construction and record low inventories

- The Munich-based Ifo Institute reports its business climate index – based upon a survey of 7,000 executives – declined to a reading of 103.3 in July from a level of 105.2 in June, the third consecutive monthly drop and the lowest reading since March 2010

- The Office for National Statistics reports Britain's gross domestic product (GDP) declined by 0.7% in the 2nd. quarter, the sharpest quarterly decline in over three years

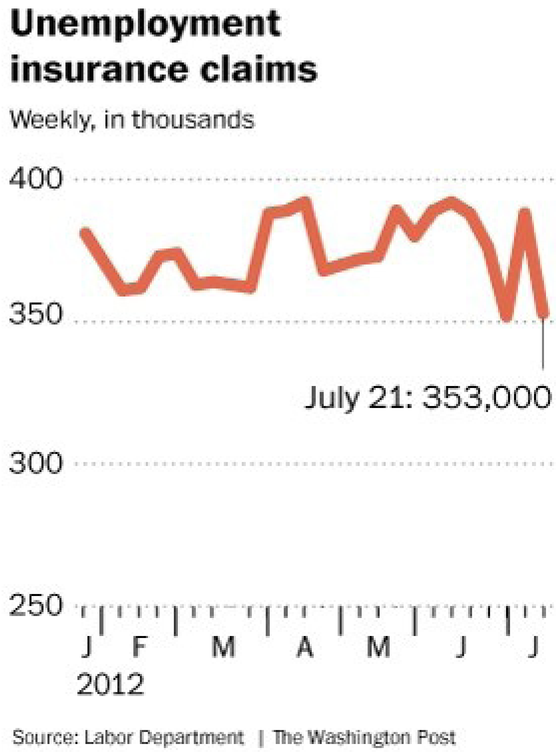
- Front Page Headline, National Post – "B.C. Seeks Federal Help to Resolve Gateway Pipeline Feud. The escalating war of words between Alberta and British Columbia over the Northern Gateway oil pipeline remained tense as the annual Council of the Federation meetings opened in Halifax. B.C. Premier Christy Clark informed reporters: 'My basic request is for the governments of Alberta and Canada to come to the negotiating table with British Columbia and work to determine how we can resolve the royalty issue. If that's going to cause such a big problem that there are trade barriers, there is a very easy solution. No pipeline.' Legally, Canadian pipelines are a federal jurisdiction under the auspices of the National Energy Board, albeit subject to federal Cabinet override."

B.C. Premier Christy Clark Source: National Post

Thursday, July 26th

- Front Page Headline, Reuters News – "ECB's Draghi Pledges to Preserve the Euro. Speaking at an investment conference in London, European Central Bank President Mario Draghi pledged: 'Within our mandate, the ECB is ready to do whatever it takes to preserve the euro and believe me, it will be enough.' Former ECB President Jean-Claude Trichet once made a similar pledge. The proof will be in the pudding!"

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 35,000 to 353,000 in the week ended July 21st. while continuing claims fell by 30,000 to 3.29 million in the week ended July 14th. Those people who have exhausted their traditional benefits but are now receiving emergency or extended benefits under state or federal programs rose by about 27,000 to 2.59 million in the week ended July 7th.



- The Commerce Department reports orders for U.S. durable goods – products meant to last at least three years – rose by 1.6% in June, citing higher demand for aircraft and military hardware which overshadowed a decline in orders for business equipment

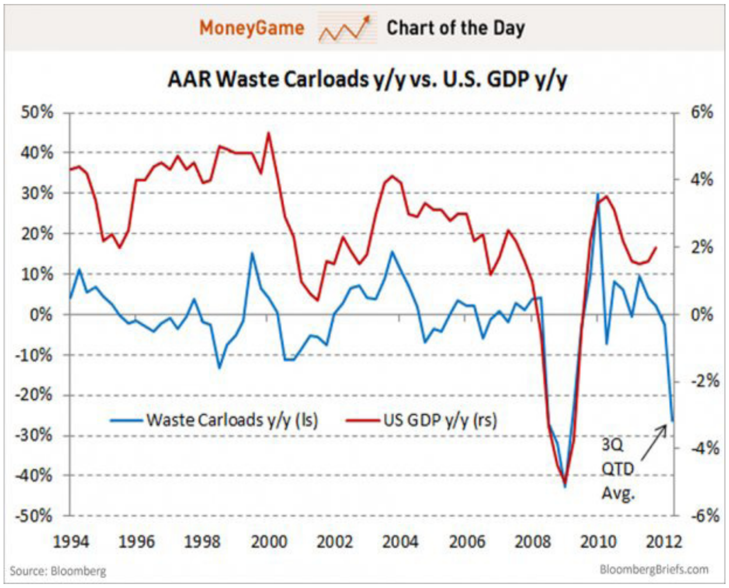
- Front Page Headline, New York Times – "Nomura CEO Resigns Over Insider Trading Scandal. At a news conference, Kenichi Watanabe and Takumi Shibata, chief executive officer and chief operating officer, respectively, of Tokyo-based Nomura Group, resign their positions over recent revelations that bank employees had abetted insider trading. The company announced they will be succeeded by Koji Nagai, who manages Nomura's securities unit and Atsushi Yoshikawa, who heads the company's operations in the United States. Mr. Nagai, who has promised to regain investor trust in the bank stated: 'I intend to reform the company mindset."

Kenichi Watanabe (right) announces his resignation, as his successor Koji Nagai looks on.
Source: Agence France-Presse / Getty Images

Friday, July 27th

- Front Page Headline, Bloomberg News – "U.S. GDP Growth Projected at 2.6% for 2012: OMB." The U.S. Department of Commerce has just reported an average annual GDP growth rate of 1.75% for the 1st. half of 2012, having downwardly revised the 1st. quarter growth rate to 2% from 2.4% and clearly witnessed a continuing downward trend in the 2nd. quarter to 1.5%; which is quite likely to be revised lower. **Accordingly, at Longwave Analytics, we find it completely absurd that the Obama administration's Office of Management and Budget would project a GDP growth rate of 2.6% for the calendar year 2012. Clearly, for this rate of GDP growth to be achieved, the U.S. economy would have to rebound and expand at a 3.45% annual pace over the 2nd. half of the year. A presidential election year replete with positive government 'spin' notwithstanding, what are they smoking over at the OMB?**

- The Commerce Department reports U.S. gross domestic product (GDP) grew by a 1.5% annual rate in the 2nd. quarter after a downwardly revised pace of 2% in the 1st. quarter



- The Thomson Reuters / University of Michigan final index of consumer sentiment declined to a reading of 72.3 in July, following a level of 73.2 in June, citing a continuing high domestic unemployment rate and a widening economic slowdown in Europe negatively impacting U.S. exports

- Front Page Headline, Globe and Mail – "S&P Lowers Credit Rating Outlook for Seven Canadian Banks. Standard and Poor's affirms the credit ratings for the Bank of Nova Scotia, Central 1 Credit Union, Home Capital Group Inc., Laurentian Bank of Canada, National Bank of Canada, Royal Bank of Canada and the Toronto-Dominion Bank, but cut its outlook for each to negative from stable, citing: 'In our view, a prolonged increase in Canadian house prices and consumer indebtedness is contributing to growing imbalances and Canada's vulnerability to the generally weak global economy, applying negative pressure on economic risk for banks. Growing pressure on banks' risk appetites and profitability – arising from competition for loan and deposit market share – could also lead to deterioration, in our view, of industry risk. The dimming prospects for the global economy add further impetus for the outlook change, because Canada could see its unemployment rate rise, further constraining income growth. In turn, that could make it more difficult for Canadians to pay off their debts and amplify the country's vulnerability to a housing market correction at some point in the future. Canadian house prices have roughly doubled over the past decade; while relative to gross domestic product (GDP), consumer debt has risen from about 70% to more than 90%."

- A Fiscal Monitor report from Finance Canada reveals the federal government posted a deficit of $832 million (CAD) during the April-May period – the first two months of fiscal 2013 – compared with $2 billion (CAD) during the same two-month period a year ago. Personal income tax revenues rose by 2.6% while corporate income tax revenues and goods and services tax (GST) revenues both increased by 9.3%. On the expenditure side, total program spending – including transfer payments – rose by 3.4%, with transfer payments largely responsible for the increase.

- Front Page Headline, Globe and Mail – "TransCanada Planning New Pipelines as Southern Keystone Section Receives Final Approval. TransCanada is preparing plans for new pipelines to transport crude oil from Alberta's oil sands to eastern Canada, as construction of a southern section of its Keystone oil pipeline network – also known as the Gulf Coast Project – through the United States receives final approval from the U.S. Army Corps of Engineers. TransCanada's president of energy and oil pipelines, Alex Pourbaix, elaborated: 'We see very significant opportunities to grow our presence in the inter-Alberta market. The company is working pretty hard to find ways of moving oil out of the oil sands. We believe it is very technically feasible and the resulting tolls from those projects will be very competitive with other competing projects to get Canadian oil to markets both within and outside of Canada."

Source: Washington Post

CLOSING LEVELS FOR FRIDAY, JULY 27TH.		WEEKLY CHANGE
Dow Jones Industrial Average	13,075.66	+ 253.09 points
Spot Gold Bullion (September)	$1,618.00 (U.S.)	+ $35.20 per oz.
S&P / TSX Composite	11,766.36	+ 143.45 points
10-Year U.S. Treasury Yield	1.55%	+ 9 basis points
Canadian Dollar	99.56 cents (U.S.)	+ 1.29 cents
U.S. Dollar Index Future (Spot Price)	82.806 cents	– 0.852 cent
WTI Crude Oil (September)	$90.13 (U.S.)	– $1.70 per barrel

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