

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE  
**THAT WAS THE WEEK THAT WAS**



Monday, July 30th

Front Page Headline, Daily Telegraph  
U.K. – “Bankers Found Guilty of Rigging  
Libor Submissions Could Face Jail.

Monday, July 30th

- In a statement, Britain’s Serious Fraud Office (SFO) declares it will bring criminal charges against bankers involved in the benchmark Libor (London Interbank Offered Rate) rigging, who if found guilty could face prison sentences of up to ten years. SFO Director David Green warns: ‘I am satisfied existing criminal offences are capable of covering conduct with respect to the alleged manipulation of the Libor and related interest rates.’ It is highly likely that major British lenders, including Barclays, Lloyd’s Banking Group and Royal Bank of Scotland – already the subject of international investigations – are among the institutions being probed by the SFO.”



Hallway in a modern U.K. prison.

Source: British Broadcasting Corp.

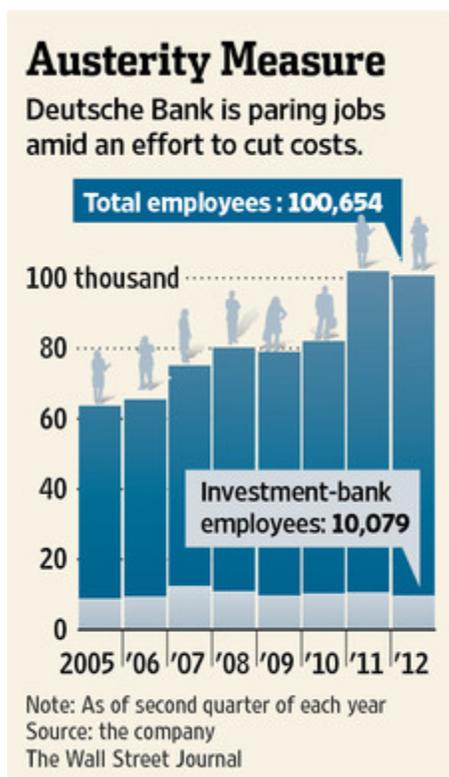
- South Korea's statistics office reports the country's manufacturing confidence outlook for August declined to a reading of 70, following a level of 81 in July. In a speech to government officials in Gwacheon, South Korean Finance Minister Bahk Jae Wan stated: "The economy is in a difficult situation. I will do everything I can to find a solution for the sluggish domestic economy." **Finally, a finance minister with a sense of humour.**
- The European Commission (EC) reports its economic sentiment index declined – for the fifth consecutive month – to a reading of 87.9 in July, following a level of 89.9 in June. Jennifer McKeown at Capital Economics commented: "The (continuing) deterioration in economic sentiment adds to evidence that the euro zone is diving deeper into recession. I am expecting the 17-nation European Union economy to contract by 1.5% this year."
- Spain's Statistics Institute INE reports the nation's gross domestic product (GDP) contracted by 1% on a year-over-year basis at the end of the 2nd. quarter; while inflation rose at an annual rate of 2.2% in July, following an annual pace of 1.8% in June.



Tuesday, July 31st

- Front Page Headline, MarketWatch News – "U.S. Congress Strikes Stopgap Funding Agreement. The broad parameters of a deal were announced by Senate leader Harry Reid (D-Nev.) and House Speaker John Boehner (R-Ohio) which will enable funding for the federal government for about six months, averting a possible shutdown prior to the September 30th. fiscal year end and the November 6th. elections. Speaker Boehner stated: 'The deal will be written during the August recess and brought to a vote in September.' Senator Reid commented: 'The agreement reached among the Senate, the House and the White House provides stability for the coming months, during which time we must resolve critical issues that directly affect middle class (American) families.'"
- Statistics Canada reports the nation's gross domestic product grew by only 0.1% in May, following a slightly higher pace of 0.3% in April, citing declines in the manufacturing sector were offset by gains in the energy sector and a modest gain in retail sales

- Eurostat, the European Union's (EU) statistics agency, reports the unemployment rate for the 17-country EU rose to a record 11.2% in June – about 17.8 million people – the 14th. consecutive monthly increase. Nine EU countries are now saddled with a double-digit unemployment rate.
- The Conference Board reports its index of U.S. consumer confidence rose to a reading of 65.9 in July from an upwardly revised level of 62.7 in June. In a statement, Lynn Franco, director of the Conference Board Consumer Research Center, noted: "While consumers expressed greater optimism about short-term business and employment prospects, they have grown more pessimistic about their earnings. Given the current economic environment – in particular, the weak labour market – consumer confidence is not likely to gain any significant momentum in the coming months."
- The Commerce Department reports U.S. consumer spending was flat in June – after declining by 0.1% in May – even though personal income rose by 0.5%
- Front Page Headline, Wall Street Journal – "Deutsche Bank Announces 1,900 Job Layoffs. Deutsche Bank AG announces a wave of layoffs and other cost cutting measures at its floundering investment banking arm. During a conference call with analysts, Co-CEO Anshu Jain commented: 'The bank aims to apply all capital levers at its disposal before considering raising equity from investors.'



Wednesday, August 1st

- The Tempe, Arizona-based Institute for Supply Management reports its U.S. manufacturing purchasing managers' index (PMI) was little changed at a reading of 49.8 in July, following a level of 49.7 in June. Separately, London-based Markit Economics and the Chartered Institute of Purchasing and Supply report their factory output index declined to a reading of 45.4 in July from a revised level of 48.4 in June. Meanwhile, Eurostat reports its manufacturing PMI for the 17-nation European Union fell to a 37-month low reading of 44 in July from a level of 45.1 in June.
- Roseland, New Jersey-based ADP Employer Services reports U.S. companies added 163,000 workers in July – based upon a survey of payrolls – following a revised gain of 172,000 in June
- Front Page Headline, New York Times – "U.S. Automakers Report Mixed Domestic Sales. General Motors, the nation's largest automaker, reported sales of 201,000 vehicles in July, down 6.4% from the same period a year ago, citing: 'while sales to retail customers increased slightly, fleet sales declined by 41%.' Ford Motor reported its overall U.S. sales declined by 3.5% during July to 166,000 vehicles; also citing lower fleet sales. Chrysler Corp. reported its July sales in the U.S. increased by 13% to 126,000 vehicles; as consumers continued to purchase popular models such as the Jeep Grand Cherokee and the Chrysler 300 Sedan."
- China's National Bureau of Statistics reports its manufacturing purchasing managers' index (PMI) declined slightly to a reading of 50.1 in July from a level of 50.2 in June, citing a drop in new orders and exports
- Front Page Headline, New York Times – "FOMC Notes Slowing U.S. Economy, but Defers Any Action. Following a regularly scheduled meeting, the Federal Open Market Committee issued a statement noting: 'Since the pace of (domestic) economic growth has slowed over the summer, the unemployment rate is expected to decline very gradually. The Committee will closely monitor incoming information on economic and financial developments and will provide additional accommodation as needed, to promote a stronger economic recovery and sustained improvement in labor market conditions.'
- Front Page Headline, Financial Times – "Greece Agrees to 11.5 Billion Euros of Spending Cuts. Greece's three-party coalition reaches agreement on 11.5 billion euros of spending cuts over the next two years, after Evangelos Venizelos, a former finance minister and leader of the PanHellenic Socialist Movement (Pasek) dropped objections to further planned reductions in public sector wages and pensions. Emerging from a three-hour meeting, Greek Finance Minister Yannis Stournaras informed reporters: 'Prime Minister Samaras' proposals were accepted by the other political leaders.' Mr. Samaras is trying to secure the disbursement next month, of a much-delayed 31.2 billion euro bond tranche. Troika officials are scheduled to return to Greece in early September to assess progress and prepare a report, which will determine whether Athens will receive the funds needed to recapitalize its banks and support the budget."

Thursday, August 2nd

- The Labor Department reports U.S. initial claims for state unemployment benefits increased by 8,000 to a seasonally adjusted 365,000 in the week ended July 28th. while continuing claims declined by 19,000 to a seasonally adjusted 3.27 million in the week ended July 21st. The number of people who have exhausted their traditional benefits but are now receiving emergency or extended benefits from state or federal programs declined by 69,672 to about 5.96 million in the week ended July 14th.
- The Commerce Department reports U.S. factory orders fell by 0.5% in June – the third decline in four months – citing reduced demand for computers, heavy machinery and petroleum products
- Thomson Reuters reports among the first 13 U.S. retailers to reveal sales figures for July, nine beat expectations and three missed them, with one not comparable
- Front Page Headline, Wall Street Journal – “ECB President Draghi Hedges His Rhetoric. A week after promising to do ‘whatever it takes’ to save the euro, European Central Bank President Mario Draghi, under German influence, softened his rhetoric. At a Frankfurt news conference, Mr. Draghi asserted: ‘Governments must stand ready to activate the rescue funds in the bond market when exceptional financial market circumstances and risks to financial stability exist. Such steps by governments, as well as commitments to fiscal austerity, are necessary conditions for the ECB to begin its own bond purchases.’”



ECB President Mario Draghi

Source: Reuters News

- The Canadian Federation of Independent Business (CFIB) reports its index of confidence in economic conditions declined to a reading of 60.9 in July, the lowest level in three years. Ted Mallett, CFIB chief economist, commented: “The index’s current position in relation to the nation’s gross domestic product (GDP) puts it very close to the zero growth mark, suggesting the Canadian economy is nearing a standstill.’”

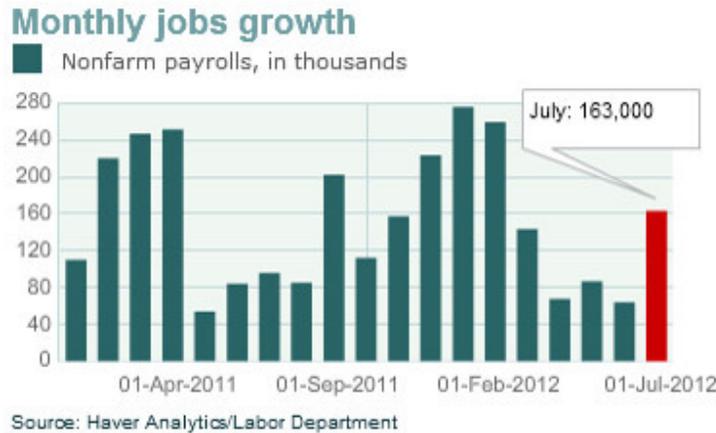
- Front Page Headline, Financial Times – “Spanish and Italian Bond Yields Soar. The yield on Spain’s outstanding 10-year bonds climbs above 7% once again; as the yield spread of 10-year Italian bonds against their equivalent German bunds, soars above 500 basis points. ECB President Mario Draghi signaled: “The central bank might undertake further non-standard monetary policy measures, potentially, intervening in markets to lower financing costs for weaker euro zone countries. In order to create the fundamental conditions for the high risk premia being attached to government debt in countries such as Spain and Italy to disappear, policy makers in the euro area must push ahead with fiscal consolidation, structural reform and European institution-building with greater determination.”



- Front Page Headline, Financial Times – “U.K. Court Ruling Favours Bondholders. A U.K. high court has ruled that measures by Ireland forcing bondholders to accept (capital) losses on their bonds as part of Anglo Irish Bank’s restructuring were unfair and coercive to minority investors, and should not have been implemented. The case was brought by Germany’s Assenagon Asset Management against the group which took over the Anglo Irish Bank, and could be important for how ailing euro zone governments and banks deal with investors in debt restructuring programs. The ruling, which relates to the debt exchange announced as part of the restructuring of Anglo Irish, focused on the use of ‘exit consent’ measures, in which a bank or company invites its bondholders to sell or exchange their bonds in return for voting in favour of a change to the terms of the bonds. Steven Friel, a partner at law firm Brown Rudnick commented: ‘For Ireland, the potential impact of the Anglo Irish ruling could be huge if the whole bank restructuring framework had to be unraveled and other bondholders pursue similar claims. It is also relevant for any investors, who participated in a debt exchange by a company, bank or government, where there is evidence that bondholders only gave their consent under economic duress. Any institution considering using exit consents written under English law will have to take a hard look at them.’”

Friday, August 3rd

- The Labor Department reports U.S. non-farm payrolls increased by 163,000 in July, citing the gain was concentrated in the service sector of the economy, together with a modest increase in factory employment. However, the official U.S. unemployment rate edged slightly higher to 8.3%.



- Front Page Headline, Daily Telegraph U.K. – “U.K. Pensions Face Death Spiral: Economist Ros Altman. According to Ms. Altman, a British economist with the Saga over fifties group: ‘The Bank of England’s quantitative easing policy has done irreparable damage to Britain’s final salary pension schemes. Pension deficits at FTSE 100 firms have more than doubled in the last year alone, despite companies pumping millions (of pounds) into their schemes to repair their pension shortfalls. This is turning into a death spiral. The lower that gilt (U.K. government bond) yields decline, the worse pension deficits become and the more that trustees will feel the need to reduce risk. This often means purchasing more gilts, which itself means worse deficits because trustees are competing with the Bank of England, which is also trying to buy gilts due to quantitative easing. Many employers would like to get rid of their pension risks altogether, but that approach also risks the cost of becoming unaffordable because the cost of covering future liabilities also increases as gilt yields decline. Companies are left trying to find more money to cover pension deficits, causing funds to be diverted from creating jobs and expanding operations. Also worrying, is that companies trying to borrow money to expand, or meet a pension recovery plan, are finding the banks increasingly unwilling to lend because of the pension deficit. This vicious circle must not be allowed to continue. Artificially inflating pension deficits is hampering economic recovery.’”



Saga economist Ros Altman

Source: Daily Telegraph U.K.

CLOSING LEVELS FOR FRIDAY, AUGUST 3RD.		WEEKLY CHANGE
Dow Jones Industrial Average	13,096.17	+ 20.51 points
Spot Gold Bullion (December)	\$1,609.30 (U.S.)	– \$8.70 per oz.
S&P / TSX Composite	11,662.59	– 103.77 points
10-Year U.S. Treasury Yield	1.57%	+ 2 basis points
Canadian Dollar	99.83 cents (U.S.)	+ 0.27 cent
U.S. Dollar Index Future (Spot Price)	82.315 cents	– 0.491 cent
WTI Crude Oil (September)	\$91.40 (U.S.)	+ \$1.27 per barrel

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