Monday August 13th, 2012

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

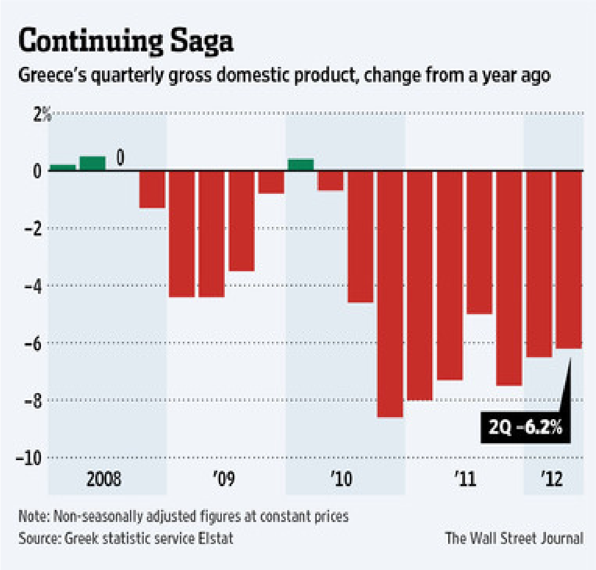
Monday, August 13th

Front Page Headline, Wall Street Journal **– "Google to Lay Off 20% of Motorola's Staff.**

Monday, August 13th

- Google Inc. announces it will reduce Motorola Mobility's work force by about 20% to help streamline the unprofitable wireless phone maker. The cuts are the first large-scale layoffs in Google's 13-year history. Google expects severance-related charges of as much as $275 million (U.S.), all of which will be realized by the end of the year. In a statement filed with regulators, the company elaborated: *"Investors should expect significant revenue variability for Motorola for several quarters and we expect to incur additional restructuring charges, which could be significant. While lower revenues are likely to trail the immediate negative impact to revenue, we expect these actions to be a crucial step for Motorola to achieve sustainable profitability."*

- The Hellenic Statistical Authority reports Greece's gross domestic product (GDP) contracted by 6.2% in the 2nd. quarter, following a 6.5% contraction in the 1st. quarter, citing tough austerity measures and a flight of deposits from Greek banks all weighing on investor and consumer confidence. Sarah Hewin, an economist at Standard Chartered Bank in London, commented: *"At present, there appears to be little reason for optimism with the unemployment rate reaching a record 23.1% in May and the jobless rate amid youth climbing to 55%."*



- Front Page Headline, - Daily Telegraph U.K. – **"World Shipping Crisis Threatens German Dominance.** Germany's shipping industry faces a wave of bankruptcies over the coming months as funding evaporates and deepening global economic woes cause a sharp contraction in the container trade. Over 100 German ship funds have already closed down as the long-simmering crisis in global container shipping finally comes to a head. According to consultants TPW in Hamburg, a further 800 funds are threatened with insolvency … Germany is the superpower of container shipping, controlling almost 40% of the world market. The Germans have misread the cycle and have been struggling to cope ever since, with a legacy of debt and a glut of ships. Now, everything is going wrong at once. Container volumes arriving at European ports plunged in June, dashing expectations of a summer rebound. Imports declined by 7.5% from North America and by 9% from Asia. Flows into the Mediterranean region plummeted by 16%, reflecting the depth of the recession in Greece, Italy, Spain and Portugal. Buckling trade is the coup de grace for countless shippers still clinging by their fingertips. Martin Smith, at ship operators Norddeutsche Vermogen in Hamburg commented: *'The (shipping) market is barely paying above operating costs. If you are loaded with debt, you are in trouble.'* Commerzbank – the world's second-biggest provider of ship finance and the owner of a flotilla of foreclosed ships – announced: *"We are closing our 20 billion euro ship funding operations entirely, to minimize capital risk under tougher EU banking rules. The essential reasons are the high capital and rising liquidity requirements under Basel III."*

Fully loaded container ship in the Port of Hamburg, Germany.

Source: Associated Foreign Press

- Front Page Headline, Wall Street Journal – **"Hope Springs Eternal at the European Commission.** In a WSJ article entitled 'How We'll Build European Monetary Union 2,' Olli Rehn, Vice President of the European Commission and Commissioner for Economic and Monetary Affairs and the Euro, waxes prolific: 'The euro zone is at a decisive juncture – not only in its 3 year-old debt crisis, but also, in its 13 year-old history and the two are inextricably linked. The short term symptoms of this crisis have their roots in long term ailments. Europe is undergoing a correction of the macroeconomic imbalances that built up before the financial shock of 2008 … *Over the last two years, Europe has made remarkable progress in addressing these imbalances. Consider the three euro zone countries under full economic adjustment programs: Ireland has been able to regain access to the (fixed income) markets earlier than envisaged. Portugal's export growth is helping to offset weaker domestic demand. Even Greece has achieved more than is often realized. Its current government is committed to (economic) reforms and enjoys broad parliamentary support. Negotiations are ongoing over the future of the Greek economic adjustment program."* **Mr. Rehn's diatribe extrapolates further by grasping at rhetorical straws through a well-polished pair of rose-coloured glasses. At Longwave Analytics, we would entreat Mr. Rehn to pay a return visit to his optometrist for some clear lenses in order to better view the reality of the times. For example, just today Berlin has read the riot act to Athens: *'If Greece does not meet the conditions of its bailout, a Greek exit from the European Monetary Union would be inevitable.'* See also, Economic Winter, Will Germany Exit the European Monetary Union? August 17, 2012.**

Tuesday, August 14th

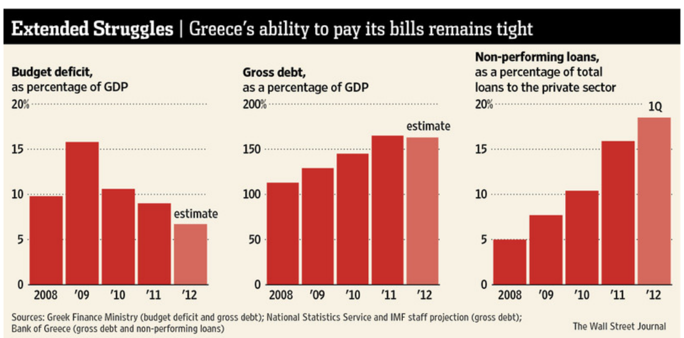
- The Commerce Department reports U.S. retail sales rose by 0.8% in July to a seasonally adjusted $403.9 billion (U.S.), following a upwardly revised decline of 0.7% in June; citing healthy price discounts for inventory clearances

- The Federal Statistics Office in Wiesbaden reports Germany's gross domestic product (GDP) rose by 0.3% in the 2nd. quarter, following a 0.5% gain in the 1st. quarter, citing higher domestic consumption and net international trade, with exports – 40% of which are shipped to euro zone countries – increasing more than imports. Separately, the French economy was unchanged while the Italian economy contracted by 0.7% in the 2nd. quarter. While Spain's GDP declined by 0.4%, Portugal's recession deepened with GDP falling by 1.2%, for its 7th. consecutive quarterly drop.

- The Office for National Statistics reports Britain's inflation rate rose to an annual level of 2.6% in July, following a 2.4% annual pace in June, citing a 22% hike in air fares between June and July and only a modest decline in prices for clothing and footwear. Chris Williamson, an economist at Markit Economics commented: "The uptick may only be temporary, but a persistently high inflation rate will hurt consumer spending through the squeeze on take-home pay."

- The New York Department of Financial Services announces: "Standard Chartered Plc has agreed to pay $340 million (U.S.) to settle allegations that it hid transactions with Iran from regulators. In addition to the civil penalty, the bank agreed to install a monitor for at least two years to evaluate the bank's money-laundering risk controls in its New York City branch."

- Front Page Headline, Wall Street Journal – **"Greece Avoids Default with Treasury Bill Auction.** The Greek government auctions 4.063 billion euros ($5 billion U.S.) of 3-month treasury bills – its largest debt sale in 2 years – mainly to domestic banks. Of these funds, 3.1 billion euros are slated to repay the European Central Bank (ECB) for bonds maturing on August 20th. with the balance being allocated to the general budget. The hope is that Greece will have enough funds to last until the end of September, when it hopes to receive the next installment of financial aid from its other official creditors: the European Commission (EC) and the International Monetary Fund (IMF). Also, the government plans to draw upon monies from the Hellenic Financial Stability Fund – its bank recapitalization agency – to ensure it doesn't run out of money. A government official volunteered: *"It will be very tight, but we will be able to meet basic obligations such as salaries and pensions. Money owed to the private sector, such as VAT refunds, will be withheld until the next (bailout) loan payment has been received."*



- Front Page Headline, Wall Street Journal – **"Spanish Banks Borrow Record Amount From ECB.** Spanish banks borrowed a record amount from the European Central Bank in July, as private sources of funding evaporated further in the weeks following the announcement of a 100 billion euro ($123 billion U.S.) bailout for the country's financial industry. Bank of Spain data indicated that net ECB borrowing rose to 375.55 billion euros from 337.21 billion euros in June. It was the 10th. consecutive month of increases, highlighting how Spain's banks are encountering an increasing amount of difficulty financing themselves through private investors. Spanish banks now account for 33% of all the liquidity the ECB is currently doling out to euro zone lenders, significantly higher than the 12% weight Spain's gross domestic product carries within the total euro zone GDP."

Wednesday, August 15th

- Front Page Headline, Financial Times – **"Greece Seeks Two-Year Austerity Extension.** According to a document obtained by the Financial Times, Greece is seeking a two-year extension of its latest austerity programme aimed at improving the country's debt sustainability and prospects for a return to (economic) growth. Antonis Samaras, Greece's centre-right prime minister, is expected to outline the proposal during talks next week with German Chancellor Angela Merkel and French President Francois Hollande in Paris. Greece is struggling to find another 11.5 billion euros of spending cuts – equivalent to about 5% of gross domestic product (GDP) – to be implemented in 2013 and 2014 under the current bailout agreement with the European Union (EU) and the International Monetary Fund (IMF). Meanwhile, the patience of Greece's euro zone creditors is wearing thin. German officials have ruled out any additional loans to Athens and a growing number of German politicians are now openly contemplating Greece's exit from the euro zone.

- The Federal Reserve reports U.S. industrial production increased by 0.6% in July, citing higher motor vehicle output and a rebound in utility usage during the strongest heat wave on record. Separately, a report from the Federal Reserve Bank of New York disclosed the Empire State manufacturing index declined to a reading of minus 5.9 in August from a level of 7.4 in July. Readings below zero signal contraction in the index which covers New York, northern New Jersey and southern Connecticut. Orders for the region's manufacturers declined to the lowest level in almost a year.

- The Washington-based National Association of Homebuilders/ Wells Fargo confidence index rose to a reading of 37 in August, the highest level since February 2007

- The Labor Department reports the U.S. consumer price index (CPI) was unchanged in July, while the annual rate declined slightly to 1.4% from 1.7% in June

- The Canadian Real Estate Association (CREA) reports house sales activity edged lower by 0.1% in July while the national average house price declined by 2% to $353,147 (CAD). CREA's President Wayne Moen commented: *"Recent changes to Canada's mortgage regulations were widely expected to temper sales and prices in Greater Toronto and Greater Vancouver and that was confirmed by today's data."*

- The Office for National Statistics reports the U.K. unemployment rate fell to 8% in the 2nd. quarter ended June 30th. from 8.2% in the 1st. quarter ended March 31st. Chris Williamson, an analyst at Markit Economics surmised: *"The London Olympics have provided a temporary boost to the job market where recent hirings were concentrated."*

- Front Page Headline, Financial Times – **"MF Global Trustee Sues Former Company Executives.** James Giddens, the court-appointed trustee for MF Global's North American brokerage, has chosen to sue former executives of the failed broker – including former CEO Jon Corzine – by enjoining previously filed class action lawsuits against senior MF Global staff. In October 2011, MF Global collapsed leaving a $1.6 billion (U.S.) shortfall in customer funds; triggering a complex cross-border bankruptcy proceeding which continues to unfold in U.S. and U.K. courts. A 'co-operation agreement' struck between Mr. Giddens and the plaintiffs in several other class action suits must be approved by a U.S. bankruptcy court. Mr. Giddens elaborated: *"The co-operation agreement supports the trustee's goal to return as much customer property as possible and as quickly as possible, while also minimizing duplication of efforts and expense."*

Thursday, August 16th

- The Federal Reserve Bank of Philadelphia reports its manufacturing index – covering eastern Pennsylvania, Delaware and southern New Jersey – rose to a reading of minus 7.1 in August from a level of minus 12.9 in July

- The Labor Department reports U.S. initial claims for state unemployment benefits rose by 2,000 to 366,000 in the week ended August 11th. while continuing claims declined by 31,000 to 331,000 in the week ended August 4th. The number of people who have exhausted their traditional benefits but who are now receiving emergency or extended benefits from state or federal programs declined by about 63,900 to 2.36 million in the week ended July 28th.

- The Commerce Department reports U.S. housing starts declined by 1.1% to a 746,000 annual rate in July from a 754,000 annual pace in June; while building permits increased to an 812,000 annual pace, the most since August 2008

- Statistics Canada reports the nation's manufacturing sales fell by 0.4% to $48.9 billion (CAD) in June, citing a weak performance in the energy product sector

- Front Page Headline, Washington Post – **"Municipal Bond Defaults Higher than Moody's Count: N.Y. Fed.** A study released by the Federal Reserve Bank of New York denotes its economists counted 2,521 municipal bond defaults in the U.S. since 1970; whereas ratings agency Moody's Investors Service reported only 71. The New York Fed merged defaults tracked by the three major rating agencies with unrated bonds reported by Mergent and S&P Capital IQ. Researchers discovered that defaults appeared to be *'a function of idiosyncratic factors associated with individual projects.'* Municipal solvency has been the subject of considerable debate among lawmakers in the wake of a series of bankruptcy filings in California and some other states."

- The World Gold Council reports central banks – including Turkey, Russia, Ukraine and South Korea – bought 157.5 metric tonnes of gold bullion in the 2nd. quarter; marking a 62.9% increase from the 1st. quarter and a 137.9% increase on a year-over-year basis

Friday, August 17th

- The New York-based Conference Board's index of U.S. leading economic indicators for the next three to six months rose by 0.4% in July, following a revised decline of 0.4% in June. Separately, the Thomson Reuters / University of Michigan preliminary sentiment of consumer sentiment rose to a reading of 73.6 in August, following a level of 72.3 in July.

- Front Page Headline, Globe and Mail – **"Moody's Reaffirms Canada's 'AAA' Credit Rating.** In its annual report on Canada, Moody's Investors Service reaffirms Canada's sovereign debt credit rating of 'AAA' with a stable outlook, erstwhile warning: *'The drop in the price of crude oil that has taken place this year, combined with reduced demand from the United States, potentially, could have a significant (adverse) impact on Canada's gross domestic product (GDP) growth. However, Canada has displayed a very high degree of economic resiliency, government financial strength and a low susceptibility to event risk. Although the recession caused a reversal of the improvement in the debt ratios, they did not deteriorate as much as in most other 'AAA' rated countries, are now on an improving trend, and remain compatible with the country's 'AAA' rating.'* In an interview, Moody's Senior Vice President Steven Hess elaborated: *'Canada has a haven status in financial markets. There is some chance that the Canadian exchange rate remains high even if commodity prices decline, because Canada's government finances are good enough and investors are looking for Canadian dollar assets.'*

- Statistics Canada reports the nation's consumer price index (CPI) declined by 0.1% on a seasonally adjusted basis in July – following a drop of 0.2% in June – and registering an annual rate of 1.3% compared to a 1.5% annual rate in June

- Front Page Headline, Globe and Mail – **"South Africa Police Shooting Leaves 34 Miners Dead.** One of the bloodiest police shootings since the days of apartheid has killed 34 miners and injured 78 yesterday at the Lonmin platinum mine near Rustenbug, about 100 kilometers northwest of Johannesburg. While politicians condemned the shooting, the South African media called it a massacre and analysts accused the police of an excessive response to the striking mineworkers."

Relatives of mineworkers protest the shooting.

Source: Globe and Mail

- Front Page Headline, Globe and Mail – **"U.S. Treasury Tightens Reins on Fannie Mae, Freddie Mac.** The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) were seized by the U.S. Government at the height of the financial crisis in 2008, as mortgage losses threatened their solvency. Since then they have drawn a total of $188 billion (U.S.) in taxpayer funds to stay afloat, while paying out more than $45 billion (U.S.) in dividends. The two mortgage giants will now be required to divest of their investment portfolios more quickly and release all profits to the U.S. Department of the Treasury."

- Front Page Headline, Financial Times – **"Moody's Issues Warning on California Municipal Defaults.** Robert Kurtter, a managing director at Moody's warns: *'As a consequence of the adverse economic and fiscal governance environment, the risk of default on municipal bonds in California is rising. Moody's rating revisions on California cities are possible over the next couple of months, while further negative rating actions are also possible for the cities experiencing more acute economic and budgetary distress.'* Separately, Standard & Poor's downgraded the long-term credit rating of Fresno, California to 'BBB' from 'A' with a negative outlook, citing fund imbalances: *'The negative outlook reflects our view of current budgetary constraints that may limit the city's ability to cure projected multi-year general fund deficits absent strong revenue growth, which we consider unlikely given current indications that the city will continue to experience a slow economic recovery."*

CLOSING LEVELS FOR FRIDAY, AUGUST 17TH.		WEEKLY CHANGE
Dow Jones Industrial Average	13,275.20	+ 67.25 points
Spot Gold Bullion (September)	$1,619.40 (U.S.)	– $3.40 per oz.
S&P / TSX Composite	12,089.89	+ 199.00 points
10-Year U.S. Treasury Yield	1.81%	+ 15 basis points
Canadian Dollar	101.10 cents (U.S.)	+ 0.25 cent
U.S. Dollar Index Future (Spot Price)	82.538 cents	– 0.018 cent
WTI Crude Oil (September)	$96.01 (U.S.)	+ $3.14 per barrel

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