Monday July 8, 2013

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, July 8th

Front Page Headline, Daily Telegraph U.K. – **"French Business Leaders Vilify President Hollande.**

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France's business leaders have launched a blistering attack on French President Francois Hollande, demanding drastic measures to halt the country's industrial decline and shrink the ballooning public sector. In a Daily Telegraph interview, Pierre Gattaz, the new leader of the French business federation MEDEF, stated: 'The house is on fire. France is destroying 8,000 jobs a day. The avalanche of very dogmatic measures imposed by Mr. Hollande during his first months in power have placed French corporations under enormous stress and little has yet been done to reverse the damage ... The government must assume its designated responsibilities and acknowledge that it is only private enterprise that will save France." The chief executives of top firms including Peugeot Citroen, EADS, Sanofi and Publicis signed a joint letter to Les Echos, complaining that France is being suffocated by high taxes and an over-regulated system that is no longer fit for purpose. The letter read: "Unemployment has reached record levels. The trade deficit is worsening. Profit margins are the worst in the euro zone. This calls for urgent measures. Indeed, it is a bitter reality because other countries deeply affected by the financial crisis, such as America and Ireland, are recovering." The group demanded a radical overhaul of labour markets to allow each firm to set its own working hours and a coherent energy policy to reduce costs from the current ruinous levels. Gasoline prices are triple those in the United States. Christophe de Margerie, chief executive of the French energy giant Totale commented: "France's outdated welfare model is draining the economy's life-blood. The real problem that we have in France is the state. Some 55% of our gross domestic product (GDP) is in the hands of the state and it is not being very well managed. We live in a nanny culture where people expect the state to take care of everything."

French President Francois Hollande. Source: Associated Foreign Press

- The Limburg, Germany-based Sentix Research Institute reports its index which measures institutional investor sentiment in the euro zone declined to a reading of minus 12.6 in July from a level of 11.6 in June. Sebastian Wanke, an economist at Sentix observed: “European Central Bank monetary policy is proving a positive impetus again, however, euro area governments have weighed on economic sentiment.”

- The Washington Federal Reserve reports American consumer credit rose by $19.6 billion (U.S.) in May, following a downwardly revised $10.9 billion (U.S.) in April, citing a higher demand for automobile loans, student loans and increased usage of credit cards.

- Statistics Canada reports the nation’s municipalities issued $7.3 billion (CAD) of building permits in May, up 4.5% from April; citing a greater number of residential permits in Ontario and a higher level of non-residential permits in Quebec.

- Front Page Headline, Wall Street Journal – **“EU Agrees to Keep Bailout Funds Flowing to Greece.** International creditors of Greece decided even though all isn’t well with the country’s mammoth bailout program, euro zone finance ministers agreed to release 4 billion euros ($5 billion U.S.) in financial aid to the Greek government; provided Athens moves to trim government payrolls and adopt other measures demanded by its creditors by July 19th. The International Monetary Fund is due to release another 1.8 billion euros for Greece once the IMF’s board of directors meets on July 29th. The bailout money will be used to keep the government operating, make interest payments and retire 2.17 billion euros of sovereign bonds maturing on August 20th. which are now held by the European Central Bank. In October, the government will receive another one billion euros, if ministers concur that Greece is continuing to follow its bailout program.”

- Front Page Headline, Wall Street Journal – **“Egypt Descends Into Chaos.** Egypt’s Muslim Brotherhood accuses the country’s military of massacring dozens of its supporters during dawn time prayers in Cairo. Egypt’s deadliest clashes in years between the army and Islamists are pushing the country toward armed conflict. Egypt’s official media reported 53 people were killed and more than 400 wounded in a clash between the military and supporters of Mohammed Morsi, who had gathered near the site where Mr. Morsi has been held under house arrest since he was ousted as president last week. Egypt’s military denied the allegations of a massacre, stating that soldiers defended themselves after they were attacked with guns and Molotov cocktails and that 42 protestors plus a soldier, had been killed.”

- Destatis – Germany’s statistics office – reports the nation’s exports declined by 6.5% to 88.2 billion euros in May – following exports of 94.3 billion euros recorded in April – leaving Germany with a trade surplus of 13.1 billion euros. Carsten Brzeski, an economist at ING noted: “Today’s disappointing trade data reveal that the euro zone’s economic engine is still stuttering.”

Tuesday, July 9th

- Front Page Headline, Bloomberg News – **“S&P Downgrades Italy’s Credit Rating to BBB.** Standard and Poor’s downgrades Italy’s sovereign debt credit rating to ‘BBB’ from ‘BBB’ (High) and maintains a negative outlook, citing: ‘The rating action reflects our view of a further worsening of Italy’s economic prospects following a decade of real gross domestic product (GDP) growth averaging minus 0.04%. The low GDP growth stems in large part from rigidities in Italy’s labour and product markets. Since Italy’s economic output in the 1st. quarter of 2013 was 8% lower than the final quarter of 2007 and continues to decline, S&P reduced its GDP growth forecast for 2013 to minus 1.9% from minus 1.4%.”

- The Office for National Statistics reports Britain’s factory output fell by 0.8% in May – following a drop of 0.2% in April – citing declines in pharmaceuticals and metals production. Separately, U.K. trade data revealed that exports rose by 1.5% in May while imports climbed by 1.3%. A narrowing of the deficit with countries in the European Monetary Union (EMU) offset a deterioration in trade figures with the rest of the world, leaving the overall deficit at 2.4 billion pounds, up from 2.1 billion pounds in April.

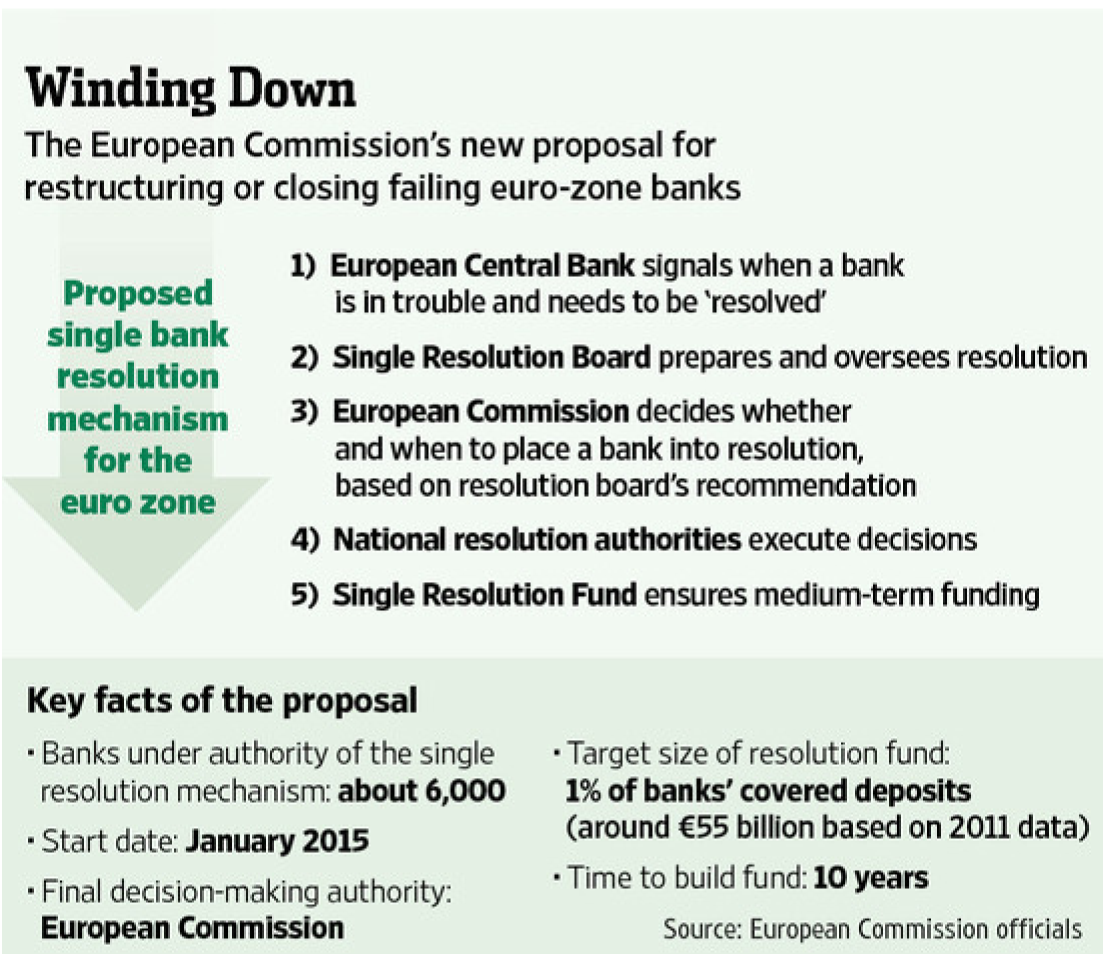
- Front Page Headline, Bloomberg News – **“IMF Reduces Global Economic Growth Outlook.** In an update to its World Economic Outlook published in April, the International Monetary Fund forecasts global economic growth will be 3.1% this year – unchanged from the 2012 growth rate – and less than the 3.3% forecast in April. The IMF warned: ‘Downside risks to global (economic) growth prospects still dominate. We cite the possibility of a longer growth slowdown in emerging market economies; especially given risks of lower potential U.S. growth, slowing credit (expansion) and possibly tighter financial conditions, if the anticipated unwinding of Federal Reserve monetary policy stimulus leads to sustained capital flow reversals. Accordingly, we urge central banks in wealthy nations – facing low inflation and economic slack – to continue injecting stimulus until (economic) recovery is entrenched.”

- China's statistics bureau reports the nation's producer price index declined by 2.7% in June on a year-over-year basis – and the 16th. consecutive month that producer prices have declined – citing lackluster consumer demand and excess factory capacity.

Wednesday, July 10th

- Front Page Headline, Bloomberg News – **"Highly Accommodative Monetary Policy Will Continue: Bernanke.** Following a speech in Cambridge, Mass., U.S. Federal Reserve Chairman Ben Bernanke stated: 'The current monetary policy is what's needed in the American economy.' Separately, The Federal Open Market Committee released the minutes from its June 18-19 policy meeting revealing that several committee members indicated they wanted to see more concrete evidence that the U.S. employment level was improving before reducing their $85 billion (U.S.) of monthly bond purchases."

- Front Page Headline, Bloomberg News – **"EU Unveils 55 Billion Euro Bank Bailout Fund.** The European Union's executive arm has proposed procedures for handling troubled banks with a 55 billion euro ($77 billion U.S.) bailout fund. Michel Barnier, the EU's financial services director, unveiled the plan for a single bank resolution mechanism which gives the European Commission (EC) in Brussels the power to decide when banks need to be saved or shut; potentially resulting in the use of public funds. The plan is intended to complement the European Central Bank's oversight of euro area lenders and includes a common resolution fund financed by levies on banks. The fund would also be able to access the fixed income market, backed by the assets of the banks it covers. Mr. Barnier elaborated: 'The EU needs a system which can deliver decisions quickly and efficiently, avoiding doubts about the impact on public finances and with rules that create certainty in the market.' Unsurprisingly, Germany was swift to reject the EC's proposal. At a news conference in Berlin, Steffen Siebert, a government spokesman stated: 'In our view, the EC proposal oversteps the Commission's authority. That's why it isn't a (realistic) suggestion that can create credibility."



- Front Page Headline, Daily Telegraph U.K. – **"The Wheels Are Falling Off the Whole of Southern Europe.** Not only is Europe's debt-crisis strategy nearing collapse, but also, the long-awaited (economic) recovery has failed to materialize. Debt to GDP ratios across southern Europe are rising at an accelerating pace. Political consent for extreme austerity is breaking down in almost every EMU crisis state ... None of the euro zone's key countries seems willing to admit that the current (austerity) strategy is untenable. They hope to paper over the cracks until the German elections in September, as if that will make any difference. A leaked report from the European Commission confirms that Greece will miss its austerity targets yet again by a wide margin. It alleges that 'Greece lacks the willingness and capacity to collect taxes.' In point of fact, Athens is missing targets because the economy is still in a free fall and that is because of austerity overkill. The Greek think tank IOBE expects GDP to decline by 5% this year. Privately, it has informed journalists that the final figure may be 7%. Greek stabilization is a mirage.

  Italy's simmering (sovereign) debt has reached 2.1 trillion euros – 129% of GDP – and may be already beyond the point of no return for a country without its own currency ... Indeed, the International Monetary Fund has just lowered its GDP forecast for Italy this year to minus 1.8%. The accumulated decline in Italian output since 2007 will reach 10%. This is a depression. Yet how is the country supposed to extricate itself from this trap with its currency overvalued by 20% to 30% within the EMU. Spain's crisis has taken a new twist. The ruling Partido Popular is caught in a slush fund scandal of such gravity that it cannot plausibly brazen out the allegations any longer, let alone rally the nation behind another year of scorched earth cuts. El Mundo says a 'pre-revolutionary' mood is taking hold. A magistrate has obtained the original 'smoking gun' alleging that Premier Mariano Rajoy accepted illegal payments as a minister. The Left is calling for his head, but so are members of the Consejo General del Poder Judicial, the justice watchdog ...

  Portugal is chasing its tail in a downward spiral. Economic contraction of 3% a year is eroding the tax base, causing Lisbon to miss deficit targets ... If Portugal does engineer an internal devaluation within the EMU, it will shrink the economic base. Yet the debt burden remains. This is the dreaded denominator effect. Public debt has increased from 93% of GDP to 123% since 2010 alone. The Portuguese media is already reporting that the European Commission is secretly working on a second bailout; an admission that the wheels are falling off the original 78 billion euro EU-IMF troika rescue."

Greek municipal workers protest job cuts in Athens as the unemployment rate hits 27%. Source: Reuters

Thursday, July 11th

- The Labor Department reports U.S. initial claims for state unemployment benefits increased by 16,000 to 360,000 in the week ended July 6th. while continuing claims rose by 24,000 to 2.98 million in the week ended June 29th. Those people who had exhausted their traditional benefits but are now receiving emergency or extended benefits from state or federal programs fell by 22,700 to 1.65 million in the week ended June 22nd.

- Front Page Headline, Wall Street Journal – **"Russian Tverskoi Court Ruling Symbolizes Kremlin's Total Abuse of the Legal Process.** Moscow's Tverskoi Court sentences U.S.-born fund manager William Browder in absentia to nine years in prison for tax evasion and posthumously, similar charges against his lawyer, the late Sergei Magnitsky. For many, Mr. Browder's experience has become a symbol of corruption and lawlessness in Russia and has fueled tensions with the U.S. and other western countries. Mr. Magnitsky, died in a Moscow prison – having been held under increasingly appalling conditions and denied medical treatment – in 2009 at the age of 37. Mr. Magnisky had revealed evidence indicating how Moscow police and Russian security officials had committed a $230 million (U.S.) fraud, allegedly by stealing taxes that Mr. Browder's Hermitage Capital Management fund had paid to the Russian government. Mr. Browder, a U.K. citizen now living in London, decried the court ruling by stating: 'The worst part of today's verdict is the malicious pain the Kremlin is inflicting upon the grieving family for a man who was killed for standing up to government corruption and police abuse."

A portrait of the late Sergei Magnitsky held by his mother Nataliya in 2009. Source: Associated Press

Friday, July 12th

- The Labor Department reports the U.S. producer price index (PPI) rose by 0.8% in June – the largest gain since September 2012 – following an increase of 0.5% in May, citing higher prices for energy and automobiles. Gennadiy Goldberg, a strategist at TD Securities in New York, noted: "While the increase in the June PPI is very much an energy story, we're not seeing much of the gain translate into higher consumer prices.'

- Front Page Headline, Globe and Mail – **"S&P Raises Outlook for Ireland.** While Standard and Poor's maintained its sovereign debt credit rating for Ireland at 'BBB', the rating agency did raise its outlook for the country to positive from stable: 'S&P expects Ireland's cumulative government debt to peak this year at 122% of gross domestic product (GDP) and decline to 112% by 2016; reflecting hopes of modest GDP growth and strengthening government revenues amid continued budget cuts. We note that the unemployment rate has already declined to 13.6% from a 2012 peak of 15.1%. Moreover, we cite the possibility of Ireland's National Asset Management Agency – which is responsible for handling the toxic debt of six rescued Irish banks – could prove unexpectedly successful in selling off its mammoth portfolio of half-built housing developments, shopping malls and derelict development land, where prices are stabilizing at about half of their 2007 peak levels."

- Front Page Headline, Wall Street Journal – **'Fitch Ratings Strips France of its 'AAA' Status.** Fitch Ratings downgrades France's sovereign debt credit rating to 'AA' (High) from 'AAA' citing: 'a decline in competitiveness, weak corporate profitability and rigid laws on labour and the trade of goods and services. Moreover, we believe France's national debt will increase further and faster than we previously expected, so we are forecasting an economic contraction this year, while noting the country's 15-year high unemployment rate of 10.9% as a cause for concern. France's debt to gross domestic product (GDP) ratio has already reached 91.7% at the end of the 1st. quarter and while we expect it will peak at 96% in 2014, it will likely decline only gradually thereafter. Over the long term, economic recovery is expected to be slow, with the French economy possessing a potential (annual) growth rate of only 1.5%."

CLOSING LEVELS FOR FRIDAY, July 12th		WEEKLY CHANGE
Dow Jones Industrial Average	15,464.30	+ 328.46 points
Spot Gold Bullion (August)	$1,277.60 (U.S.)	+ $64.90 per oz.
S&P / TSX Composite	12,462.18	+ 327.27 points
10 - Year U.S. Treasury Yield	2.59%	– 15 basis points
Canadian Dollar	96.22 cents (U.S.)	+ 0.68 cent
U.S. Dollar Index Future (Spot Price)	82.938	– 1.511 cents
WTI Crude Oil (August)	$106.25 (U.S.)	+ $3.03 per barrel

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