LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

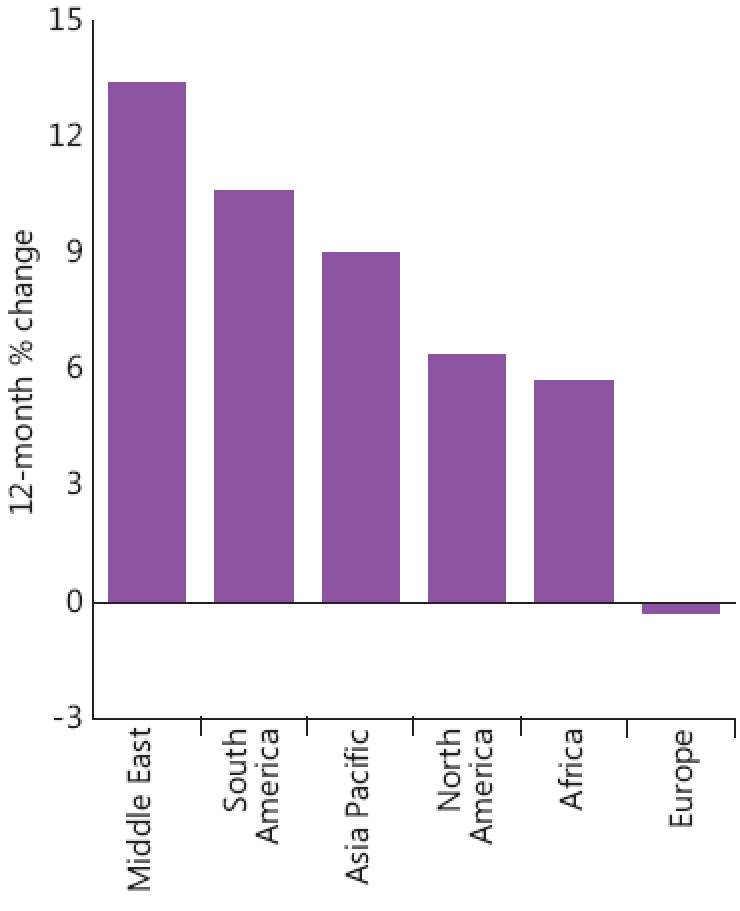
Monday, June 10th

Front Page Headline, Globe and Mail – **"S&P Raises U.S. Credit Rating Outlook.**

Monday, June 10th

Rating agency Standard and Poor's affirms America's sovereign debt credit rating at 'AA' (High) and raises the outlook to stable from negative, citing: 'Our sovereign (debt) credit ratings for the U.S. primarily reflect our view of the strengths of the U.S. economy and monetary system, as well as the U.S. dollar's status as the world's reserve currency. The rating also takes into account the high level of America's external indebtedness; our view of the effectiveness, stability and predictability of U.S. policymaking and political institutions and the federal government's fiscal performance. America has a high income economy, with GDP per capita in excess of $49,000 (U.S.) in 2012. We expect the rate of real per capita GDP growth to trend slightly above 1%. Furthermore, we see the U.S. economy as highly diversified and market-oriented, with an adaptable and resilient economic structure, all of which contribute to strong credit quality ... We view U.S. governmental institutions – including the administration and the Congress – and policymaking as generally strong, although the ability of elected officials to address the country's medium-term fiscal challenges has declined in the past decade due to increased partisanship and fundamentally, opposing views by the two main political parties on the optimal size of government (within the economy). Views also differ on the preferred mix between expenditure and revenue measures in the quest to return the federal budget to a more balanced position ... The stable outlook indicates our appraisal that some of the downside risks to our 'AA' (High) for the U.S. have receded to the point that the likelihood of our lowering the (debt) rating in the near term is less than one in three. We do not see material risks to our favourable view of the flexibility and efficacy of U.S. monetary policy. We believe the U.S. economic performance will match or exceed (that) of its peers in the coming years. We believe our current 'AA' (High) rating already factors in a lesser ability of U.S. elected officials to react swiftly and effectively to public finance pressures over the longer term, in comparison with officials of some more highly rated sovereigns and we expect repeated divisive debates over (the) raising of the debt ceiling. However, we expect these debates to conclude without provoking a sharp, discontinuous cut in current expenditure, or in debt service. We see some risks that the recent improved fiscal performance – due in part to cyclical and one-off factors – could lead to complacency. <u>A deliberate relaxation of fiscal policy without countervailing measures to address the nation's longer term fiscal challenges, could place renewed downward pressure on the (current sovereign debt) rating."</u>

- Front Page headline, Daily Telegraph U.K. – **"House Price Declines Steepen in Southern Europe.** According to Knight Frank Residential Research, house prices in Greece – where the economy has been crippled by the weight of government debt and austerity measures – declined by 11.8% in March on a year-over-year basis, following a 9.8% drop in the previous 12 months to February. Other southern European countries experiencing a decline in house values included Spain (– 7.9%); Portugal (– 6.9%) and Italy (– 4.1%). Unemployment has soared in many of the euro zone economies while wages have stagnated, or fallen in real terms, putting pressure on property valuations. In Spain, a new law enacted in April required residents to declare any asset abroad worth more than 50,000 euros, prompting fears that there may be a future Cyprus-style money forfeiture. However, Knight Frank has noted that a decision by the Spanish government to grant residency to any non-EU nationals who purchase property in Spain costing more than 500,000 euros, would offer some support. The decision is expected to be enacted into law during the second half of the year."



Source: Knight Frank Residential Research

Tuesday, June 11th

- The Office for National Statistics reports U.K. industrial production at factories, mines and utilities rose by 0.1% in April, while manufacturing output declined by 0.2%

- Front Page Headline, Globe and Mail – **"Berlin Defends ECB's Program of OMT.** At the commencement of a two-day hearing in the Karlsruhe-based Constitutional Court, German Finance Minister Wolfgang Schaeuble defended the European Central Bank's proposed Outright Monetary Transactions initiative, wherein the sovereign debt of struggling, peripheral European countries – such as Spain, Portugal, Greece and Italy – can be purchased and held on the ECB's balance sheet; similar to the quantitative easing programs currently in operation by the U.S. Federal Reserve and the Bank of Japan. Interestingly, more than 35,000 German citizens have filed complaints against the ECB's OMT program, claiming it violates the central bank's mandate for price stability and amounts to illegal back-door financing of governments. Although the ECB is based in Frankfurt, it is bound by European Union law, raising questions about whether the Karlsruhe-based court has jurisdiction over it. Accordingly, it raises the prospect of the case being referred to the European Court of Justice (ECJ) in Luxembourg. The Constitutional Court judges are not expected to reach a final ruling until after German parliamentary elections in September."

Wednesday, June 12th

- Eurostat reports euro zone industrial output rose by 0.4% in April, following an increase of 0.9% in March, citing slower production of energy and durable consumer goods. Howard Archer, chief European economist at IHS Global Insight, commented: "While April industrial production data are relatively encouraging ... conditions remain far from easy for euro zone manufacturers."

- Front Page Headline, Wall Street Journal – **"Greece Ousted From Index of Developed Countries: MSCI.** Affirming what investors have believed for years, Morgan Stanley Capital International announces it is moving Greece from its index of developed countries to its emerging-market category. MSCI, which estimates about $7 trillion (U.S.) of investment funds track its indicies, explained: 'Greece failed to qualify as a developed market based upon several criteria: from the contraction of its gross domestic product (GDP) to the ease with which money managers can trade shares on the country's stock market.' Approximately, $1.4 trillion (U.S.) of investment funds track the MSCI Emerging Markets Index.

- Front Page Headline, Daily Telegraph U.K. – **"Italian Showdown with Germany Looms Over Euro Zone.** Something snapped in the Italian psyche last week after the European Central Bank (ECB) offered nothing to combat the credit crunch asphyxiating small business and more broadly, washed its hands of the euro zone's incipient deflation crisis and catastrophic wastage of its youth. The next day, ex-premier Silvio Berlusconi called for a showdown, or 'Braccio di Ferro', with northern EU powers before Italy loses its chemical, automobile and steel industries altogether. Italy's simmering revolt against Germany, austerity and its own ultra-European elites ... is a reminder that the deep clash of interests between the European Monetary Union's (EMU) north and south remains as bitter as ever. In an interview with Il Foglio, Mr. Berlusconi elaborated: 'Italy's government – which his Liberal Party keeps in office – is complicitly serving forces that are destroying Italy. Instead, it must confront the north – particularly Angela Merkel's Germany – with a stark choice: either they call a halt to fiscal and monetary contraction and opt for full-blown reflation; or they must expect the victims to retrieve their own destinies. The battle must be waged quietly, but implacably. Italy can neither let its productive base to atrophy further, nor allow itself to be sidelined by the hegemonic methods of those with the upper hand. That is what I mean by a showdown. We must find our own national or regional solutions, breaking up euro mechanisms.' Elsewhere, Italy's business lobby Confindustria is no longer far from this belligerent position. The group's president, Giorgio Squinzi stated: 'We have shown our willingness to sacrifice, but we must say no to austerity which reduces our companies to their knees and allows others snap up our prized assets at bargain prices. Ill-informed European Union lectures on Italy's lack of enterprise are a misdiagnosis of what is at root a failing EU strategy. We must take Brussels to task and completely change economic policy, or we will never get out of this. The EU's prescriptions have been self-defeating even on their own terms, leaving aside the hysteresis damage of a youth jobless rate near 41%. Fiscal overkill which was intended to bring debt under control has instead caused the debt-to-GDP ratio to soar under Mario Monti from 117% to 127% and 132% this year."

Thursday, June 13th

- The Commerce Department reports U.S. retail sales rose by a seasonally adjusted 0.6% in May, citing higher demand for automobiles, building materials and groceries and following a gain of 0.1% in April.

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 12,000 to a seasonally adjusted 334,000 in the week ended June 8th. while continuing claims increased by 2,000 to 2.97 million in the week ended June 1st. The number of people who have exhausted their traditional benefits and are now receiving emergency or extended benefits under state or federal programs declined by 57,000 to 1.7 million in the week ended May 25th.

- Front Page Headline, Bloomberg News – **"Safeway to Sell Canadian Stores to Sobeys.** Pleasanton, California-based Safeway has agreed to sell its Canadian stores to Empire Co. Sobeys for $5.8 billion (CAD) in cash. Safeway Chief Executive Officer Robert Edwards announced: 'Proceeds from the sale will be partially used to pay down $2 billion (U.S.) in debt and to buy back stock." The deal gives Sobeys over 200 western-based grocery stores, many gas stations and a dozen manufacturing plants. Joe Feldman, an analyst at Telsey Advisory Group commented: 'It certainly catapults Sobeys into a dominant position in western Canada. Safeway has a leadership position in a lot of Canadian markets."

- Front Page Headline, Wall Street Journal – **"America Set to Arm Syrian Rebels.** U.S. President Barack Obama has authorized his administration to provide arms to rebels fighting Syrian President Bashar-al-Assad after the White House confirmed that Damascus had used chemical weapons in the country's civil war. Indeed, the White House declared: 'President Obama has decided to ramp up military support to moderate rebels both in scope and scale.' American officials also confirmed that the U.S. military proposal for arming the rebels also calls for a limited no-fly zone inside Syria which would be enforced by the U.S. and allied planes on Jordanian territory."

Friday, June 14th

- The University of Michigan and Thomson Reuters report their consumer sentiment index declined to a preliminary reading of 82.7 in June from a final level of 84.5 in May

- The Labor Department reports the U.S. producer price index (PPI) rose by 0.5% in May, following a .07% decline in April, citing higher prices for food and energy. Stuart Hoffman, an economist at PNC Financial Services Group in Pittsburg, Pennsylvania, commented: "There's just a lack of any inflationary pressures across the economy. From the Fed's point of view, I don't think May's number in any way changes the view that inflation is still quite low, quite tame."

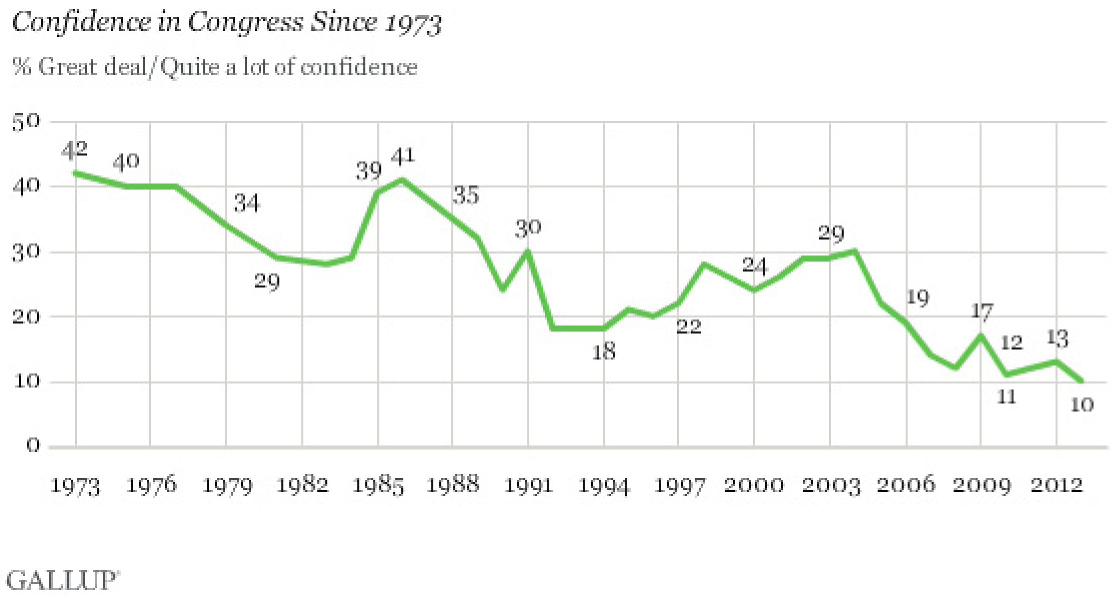
- The Washington Federal Reserve reports U.S. industrial production was unchanged in May, as a decline in utility usage offset gains in mining and manufacturing. Christophe Barraud, an economist at Market Securities-Kyte Group in Paris observed: 'Global demand remains weak. Industrial production should accelerate at the end of the third quarter ... since (by that time) the impact of the sequester will be limited."

- Front Page headline, Globe and Mail – **"OSC Forms New Fraud Squad.** The Ontario Securities Commission has expanded its fraud unit into a separate division which will perform criminal investigations of smaller fraud cases and take them to court where jail terms can be ruled against offenders. OSC Enforcement Director Tom Atkinson noted: 'Since fraudsters are not being deterred by OSC administrative sanctions; we decided that the six-year old unit would be more effective if it were taking fraud cases to court."

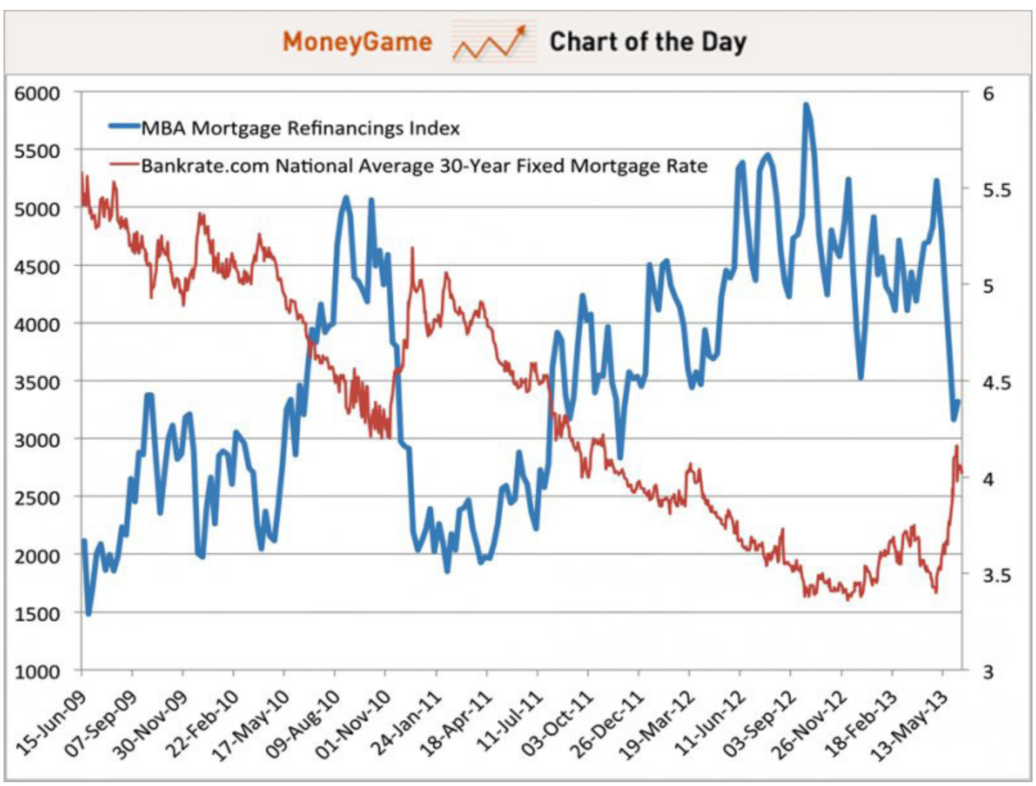
- Front Page Headline, Financial Post – **"IMF Warns Fed: Unwinding QE Too Quickly Could Unsettle Global Markets.** The International Monetary Fund envisages the U.S. Federal Reserve maintaining $85 billion (U.S.) monthly bond acquisitions (quantitative easing) until at least the end of this year and urges the central bank to carefully manage its exit plan in order to avoid disrupting financial markets. In its annual assessment of the U.S. economy, the IMF stated: 'Effective communication on the exit strategy and a careful calibration of its timing will be critical for reducing the risk of abrupt and sustained moves in long-term bond yields and excessive bond yield volatility as the exit nears. Such activity could have adverse global implications, including a reversal of capital flows to emerging markets and higher international market volatility."

- Front Page Headline, Washington Post – **"Confidence in U.S. Congress Falls to Historic Low: Gallup.** According to a new Gallup Poll, Americans' confidence in the House and Senate has declined to an historic low of 10%. The fact that Congress now ranks as the least popular societal institution in U.S. history should come as no surprise to even the most casual observer of American politics; with Democrats and Republicans on Capitol Hill in Washington polarized in political gridlock on virtually every issue. (chart on following page)

See also, Economic Winter, Federal Governments: The U.S. Republic and the Canadian Constitutional Monarchy – February 22, 2012.



- Front Page Headline, Business Insider – **"The U.S. Mortgage Refinancing Boom Is Evaporating.** American mortgage rates have been climbing for five consecutive weeks, and the latest data from the Mortgage Bankers Association (MBA) indicates that the average 30-year fixed mortgage rate is now at 4.15%, up from 3.59% in the first week of May. Meanwhile, the MBA's refinancing index is down 36% from its peak at the beginning of May. The increase in mortgage rates has been driven by concerns about when the U.S. Federal Reserve will begin to taper its $85 billion (U.S.) quantitative easing program. Those fears have initiated a price correction in the U.S. Treasury market which has caused yield on fixed income securities (including mortgages) to rise … but how worried should the central bank be about the impact of tapering fears on mortgage rates, specifically? In a note Ed Stansfield, chief property economist at Capital Economics states: 'Not very! The increase in mortgage rates has the potential to generate a hiatus in housing sales and starts over the summer … but mortgage rates are still too low to pose a serious threat to the economic recovery. Remember, mortgage rates have only returned to levels seen in 2011 and in early 2012."



Monday June 10, 2013

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CLOSING LEVELS FOR FRIDAY, June 14th		WEEKLY CHANGE
Dow Jones Industrial Average	15,070.18	– 177.94 points
Spot Gold Bullion (August)	$1,387.60 (U.S.)	+ $4.60 per oz.
S&P / TSX Composite	12,187.36	– 185.94 points
10 - Year U.S. Treasury Yield	2.13%	– 4 basis points
Canadian Dollar	98.34 (U.S.)	+ 0.28 cent
U.S. Dollar Index Future (Spot Price)	80.618	– 1.07 cents
WTI Crude Oil (July)	$97.85 (U.S.)	+ $1.82 per barrel

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