

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



Monday, June 24th
Front Page Headline, Globe and Mail – “Barrick Announces Head Office Layoffs.”

Monday, June 24th

Barrick Gold Inc. – the world’s largest gold producer – is laying off about 100 corporate staff mostly from its Toronto headquarters, approximately 30% of its total corporate office positions. While the staff cuts affect a small portion of Barrick’s 25,000 global work force, it represents the company’s ongoing efforts to streamline during a period of a declining gold bullion price and internal challenges; such as mounting costs at its Pascua-Lama project in South America and losses at its copper business in Africa.”

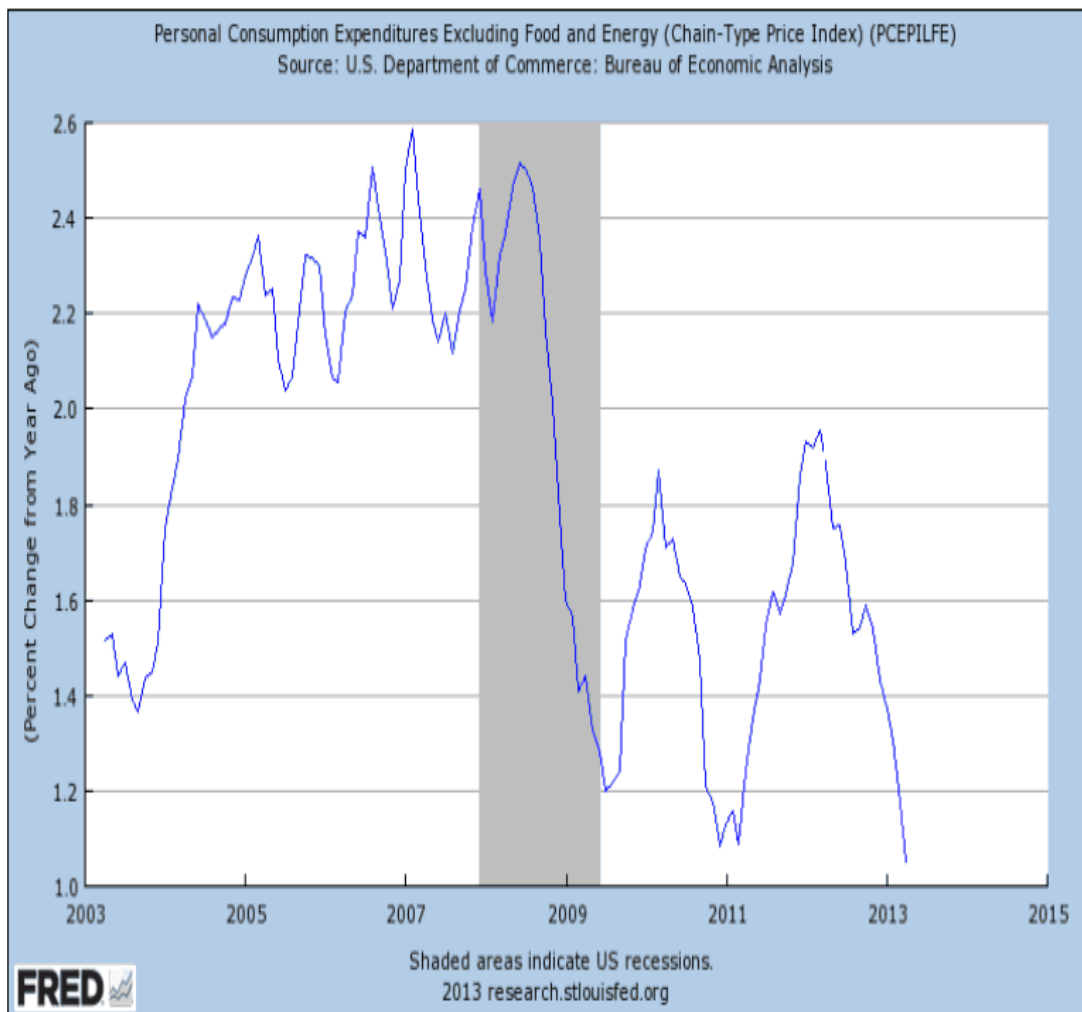
- Front Page Headline, Wall Street Journal – **“Berlusconi Found Guilty in Sex Case.** Former Italian Prime Minister Silvio Berlusconi is sentenced to seven years in jail and banned for life from holding a public office by an Italian court that convicted him of paying for sex with an underage woman and then abusing his power in an attempted cover-up. Lawyers for Mr. Berlusconi – who has denied all the charges – stated they would appeal the conviction. Despite the conviction being upheld, the 76-year old Mr. Berlusconi is unlikely to go to jail because Italian law allows for house arrest for those over the age of 70. The court ruling threatens to destabilize the young governing Italian coalition, led by the center-left Democratic party which is struggling to pass much needed economic reforms. The support of Mr. Berlusconi, who still leads Italy’s main center-right party, is essential for the grand coalition to remain afloat. In a statement, Mr. Berlusconi vowed: ‘The (court) ruling is incredible, representing an unprecedented violence aimed at eliminating me from the political life of this country. I intend to resist this persecution because I am absolutely innocent.’”



Former Italian Prime Minister Silvio Berlusconi.

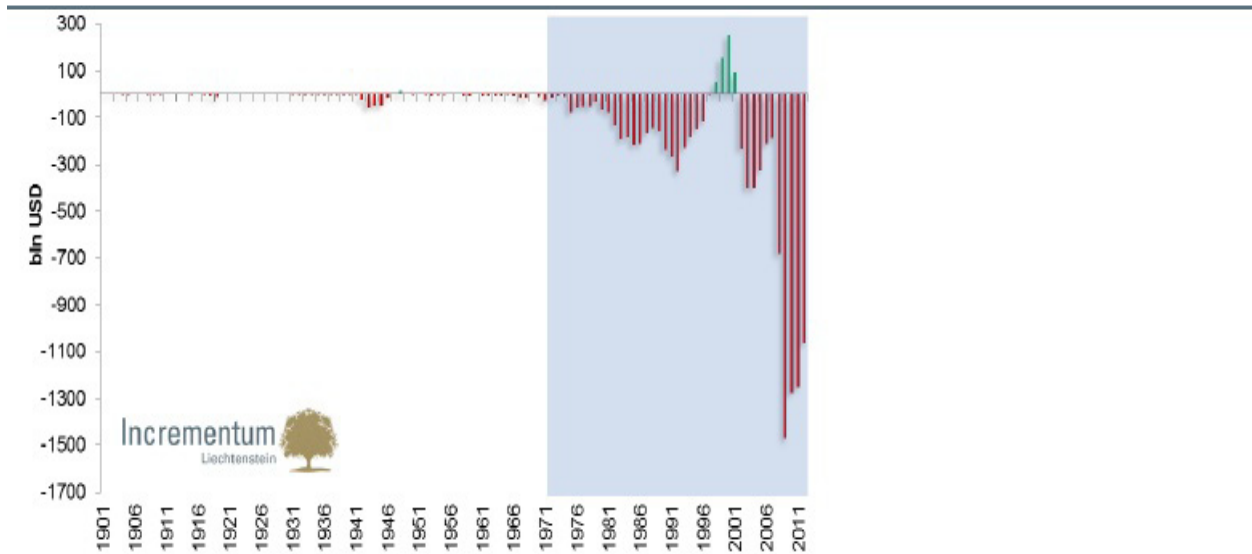
Source: Wall Street Journal

- Front Page Headline, Daily Telegraph U.K. “**The Bernanke Fed Is Playing with Deflationary Fire.** The Federal Open Market Committee (FOMC) has chosen to tighten monetary policy even though core PPI inflation is actually lower now than what it was when the Fed previously thought it dangerous enough to launch further quantitative easing. America is one shock away from a slide into outright deflation and the euro zone is half a shock away. The FOMC is gambling that the U.S. economy will shake off the effects of fiscal tightening of 2% to 3% this year, arguably the biggest squeeze in half a century. Indeed, it may do so, however it may not. The costs of making a mistake before the U.S. economic recovery is safely established are asymmetric.”



Wakeup call for Ambrose Evans-Pritchard: To be the devil’s advocate, what combined total of mortgage-backed securities and U.S. Treasurys would you deem appropriate for the Fed to purchase before ending the QE program – \$5 trillion (U.S.) or \$10 trillion (U.S.)? The Fed’s balance sheet already holds in excess of \$2.5 trillion (U.S.). Even if the Fed proceeds with an exit strategy of maturing its holdings, will the U.S. Treasury have sufficient funds to redeem them if the U.S. Congress and administration continue to do nothing about the federal deficit and national debt; as well as ignore the entitlements problem – not to mention possible future downgrades of the U.S. sovereign debt credit rating and soaring debt servicing costs. Ten year U.S. Treasurys are already 120 basis points higher in yield from their low yield level of last year of 1.35%. If you think the U.S. economy can grow its way out of this debt debacle, you are sadly mistaken. Better become more realistic and shift your focus to include a potential economic depression.

U.S Budget Surplus/Deficit in Billions of Dollars



Source: Federal Reserve Bank of St. Louis

- Front Page Headline, Wall Street Journal – **“German Business Confidence Brightens.** The Ifo Institute for Economic Research at the University of Munich reports its index of German business confidence – compiled from a survey of approximately 7,000 business managers – rose to a reading of 105.9 in June from a level of 105.7 in May, citing a sharp increase in the manufacturers’ outlook for exports. Andreas Rees, an economist at UniCredit, commented: ‘German companies have been able to withstand the recent downward pressure coming from the Chinese economy and this is not a small achievement. With an export share of 6.1% last year, China has become the fifth most important single export market for German companies.’ Carsten Brzeski, an economist at ING Bank noted: ‘The main risks for the German economy remain stagnating (GDP) growth of its main euro zone trading partners, above all France; plus a hard landing for the Chinese economy.’”

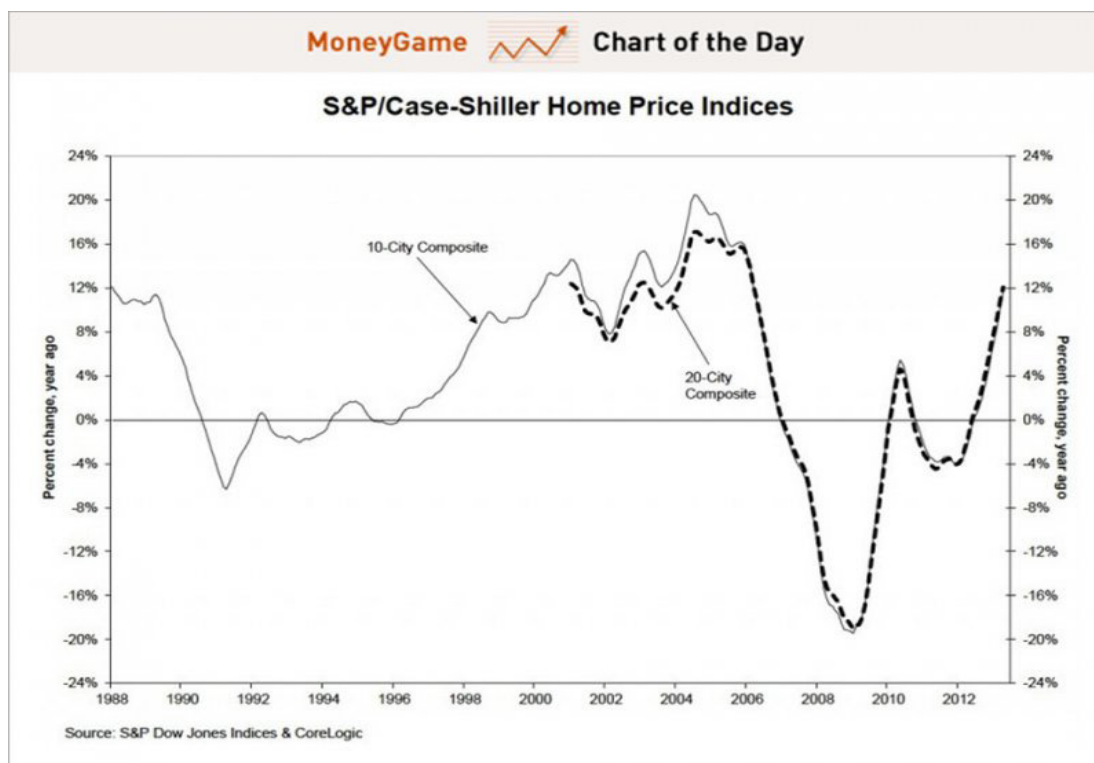


Tuesday, June 25th

- The Commerce Department reports orders for U.S. durable goods – products intended to last for at least three years – rose by 3.6% in May, citing increased domestic demand for cars, trucks and homebuilding equipment, countering some weakness in foreign demand.

Separately, the Commerce Department reported U.S. new home sales rose by 2.1% in May to a seasonally adjusted annual pace of 476,000 units. The median selling price climbed to \$263,900 (U.S.), up 10.3% from May 2012.

- The New York-based Conference Board reports its U.S. consumer confidence index rose to a reading of 81.4 in June from a revised level of 74.3 in May. Jim O'Sullivan, an economist at High Frequency Economics in Valhalla, New York, briefly noted: "Unambiguously, the economy is showing signs of improvement, despite sizeable fiscal drag."
- S&P/Case-Shiller report their 20 city index of U.S. property values rose by 12.2% in April from April 2012 – the biggest year-over-year gain since March 2006 – citing a low inventory of homes for sale and the continuing threat of higher mortgage rates.



- Front Page Headline, Daily Telegraph U.K. – **“EU Bailout Talks Deadlocked.** Recent talks in Luxembourg aimed at ensuring shareholders and bondholders bear the brunt of bank failures rather than taxpayers, have failed to bring about an agreement. The talks were split over how savers should be treated, with Germany and other euro zone countries insisting on rigid rules which would impose losses on depositors with more than 100,000 euros in their account. However, France and Britain want more flexibility to tailor action on failing banks, in order to protect savers. Irish Finance Minister Michael Noonan, who chaired the meeting, concluded: ‘There are still real issues, core issues outstanding. It is principally an issue between the EMU members and the non-European Monetary Union members.’ Despite one official who described the meeting as ‘chaotic’, European finance ministers will reconvene tomorrow in an attempt to break the current deadlock.”

- Front Page Headline, New York Times – **“U.S. Civil Charges Against Jon Corzine Are Looming.** According to U.S. law enforcement officials with knowledge of the case, The Commodity Futures Trading Commission (CFTC) – the federal agency that rated MF Global – is poised to launch a lawsuit against former CEO Jon Corzine alleging misuse of customer monies prior to the brokerage firm’s declaration of bankruptcy in November 2011. In a rare move against a Wall Street executive, the CFTC has informed Mr. Corzine’s lawyers that it aims to file the civil case without offering him the opportunity to settle out of court, raising the spectre of a lengthy legal battle ... After nearly two years of accumulating evidence, criminal investigators have concluded that porous risk controls at MF Global, rather than fraud, allowed the customer monies to disappear. In a statement, a spokesman for Mr. Corzine denounced the CFTC for planning to file what he termed ‘an unprecedented and meritless civil enforcement action.’



Jon Corzine

Source: New York Times

- Front Page Headline, National Post – **“Keystone XL Pipeline Must Not Increase Net Carbon Emissions: Obama.** In a Washington address unveiling a national plan to combat climate change, U.S. President Barack Obama stated: ‘Our national interest will only be served if this (pipeline) project does not significantly exacerbate the problem of carbon pollution. The net effects of the pipeline’s impact on our climate will be absolutely critical to determining whether this project is allowed to go forward.’ The Keystone project is currently being reviewed by the State Department which is expected to render a final decision this fall. After that, it will reside with President Obama to bless or block the Keystone Pipeline project.



U.S. President Barack Obama.

Source: National Post

Wednesday, June 26th

- The Commerce Department reports U.S. gross domestic product (GDP) grew at a revised 1.8% rate in the 1st. quarter, down from a preliminary estimate of 2.4%, citing households curbed spending on travel, legal services and health care.
- Front Page Headline, Bloomberg News – **“Rudd Defeats PM Gillard for Australian Labour Leadership.** In a caucus vote of 57 to 45, Kevin Rudd defeated Julia Gillard to become leader of Australia’s governing Labour Party, ushering the political demise of the nation’s first female prime minister just months before an election. In Canberra, Ms. Gillard congratulated Mr. Rudd and declared she would not stand in the next election: ‘At the caucus meeting today, I understand that the pressure finally became too great for many of my colleagues.’

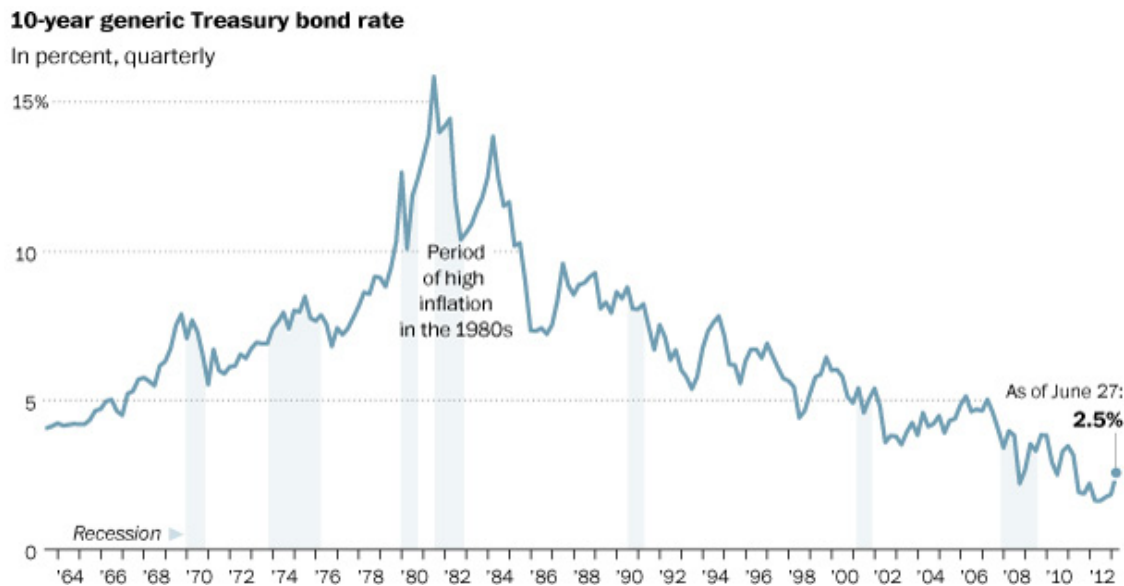


Former Australian PM Rudd and present PM Gillard.

Source: Bloomberg News

- Front Page Headline, Globe and Mail – **“Swift Upturn in Bond Yields Presents New Challenge for Economy.** Canadians accustomed to cheap credit are quickly realizing that the era of rock-bottom interest rates could soon be approaching an end. Since the worst of the financial crisis, government administered interest rates in Canada and the U.S. have remained exceptionally low. Indeed, for the past three years, government bond yields have kept falling, with the five-year Government of Canada bond yield dropping once again below 1.2% in early May. However, since then there’s been a sudden turn around. Although the upswing in bond yields was somewhat anticipated, the feverish pace of the recent increase was not. Since the beginning of May, the yield on 10-year U.S. Treasuries has spiked by 60 basis points to 2.5% (100 basis points in yield is equivalent to 1 percentage point), their highest yield since August 2011. These bond yields affect many parts of the domestic economy, from mortgage rates to the values of Canadians’ pensions. The recent increase has caught many off guard. In the past month, the Royal Bank of Canada has already raised mortgage rates twice. Bond yields began rising in early May when U.S. employment figures were reported at levels besting expectations. Yields continued to rise last week after U.S. Federal Reserve Chairman Ben Bernanke suggested the central bank could begin tapering its quantitative easing program, under which it now purchases \$85 billion (U.S.) of Treasuries and mortgage-backed securities on a monthly basis in an attempt to keep their yields in a low range. Meanwhile, yields on Canadian bonds are following suit because international investors largely view U.S. and Canadian government bonds as alternatives to one another. Craig Alexander, an economist at the Toronto-Dominion Bank observed: ‘This is uncharted territory. As investors navigate the choppy waters, the question now is

whether the recent spike in (bond) yields will hold. Do they continue to climb, or does the (bond) market pause and recognize that it went too far too quickly? Whatever the outcome, uncertainty is weighing on everyone from small businesses to pensioners, who wonder where the (fixed-income) market will settle.”



Sources: National Bureau of Economic Research / Washington Post

Thursday, June 27th

- The Commerce Department reports U.S. consumer spending rose by 0.3% in May, reversing a 0.3% decline in April. Millan Mulraine, an analyst at TD Securities, commented: ‘American consumers are continuing to provide an important backstop for U.S. economic momentum. However, even though consumption continues to remain firm despite the drag from fiscal authority, the recovery is still far from being in the clear.’
- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 9,000 to a seasonally adjusted 346,000 in the week ended June 22nd. from an upwardly revised 355,000 in the week ended June 15th. Jill Brown, an analyst at Credit Suisse, noted: “While employers seem to be curbing firings, the hiring side of the employment equation needs to improve also, in order to continue the downward trend in the unemployment rate.”
- Front Page Headline, Washington Post – **“World Can Withstand Fed Withdrawal: IMF.** In an interview, International Monetary Fund Managing Director Christine Lagarde stated: ‘The world economy can weather the Federal Reserve’s tightening of monetary policy as long as it unfolds in an articulated way, with proper transitioning, not abruptly and with good communication. While there are many ways the shift in Fed monetary policy could cause problems, I feel confident that some of the most likely difficulties can be avoided. Indeed, the world has changed and key emerging markets have strengthened their fundamentals to such an extent that I don’t think they would be victims as the Fed shifts gears.’”

Friday, June 28th

- Thomson Reuters/ University of Michigan report their final index for U.S. consumer sentiment declined slightly to a reading of 84.1 in June from a level of 84.5 in May. The survey data revealed higher-income households were more optimistic about their incomes and wealth, while lower-income households reported less optimism. Separately, the Institute for Supply Management (ISM) reports its Chicago purchasing managers’ index for manufacturing fell to a reading of 51.6 in June from a level of 58.7 in May.

- Front Page Headline, Globe and Mail – **“B.C.’s Debt Continues to Climb.** In a report to the provincial legislature yesterday, British Columbia Finance Minister Michael de Jong reported a smaller surplus will still enable the Province to balance its budget for fiscal 2014, despite a projected lower gross domestic product (GDP) growth rate of 1.4%. However, over the mid-term period of the next three years, total provincial debt will continue to climb by almost \$14 billion (CAD). B.C.’s debt is forecast to reach \$62.6 billion (CAD) in the current fiscal year ending March 31, 2014, about \$6.4 billion (CAD) higher than in fiscal 2013. Furthermore, provincial debt is forecast to reach \$66.7 billion (CAD) in fiscal 2015 and \$69.8 billion (CAD) in fiscal 2016. B.C.’s debt is rising because a sizeable number of capital expenditures are not included in the budget. Indeed, the potential billion dollar benefits of liquefied natural gas plants – if they are constructed as planned – will not be fully reaped for several years.”
- Front Page Headline, Washington Post – **“U.S. State Pensions Face Unusual Funding Gap: Moody’s.** In a new study, Moody’s Investors Service reports its calculations reveal that states had just 48 cents of each dollar promised to current and future retirees in 2011. The report also indicates that 2012 figures – which Moody’s plans to publish later this year – will be worse, largely due to poor investment returns and low interest rates.”

CLOSING LEVELS FOR FRIDAY, June 28th
WEEKLY CHANGE

Dow Jones Industrial Average	14,909.60	+ 110.20 points
Spot Gold Bullion (August)	\$1,223.70 (U.S.)	– \$68.30 per oz.
S&P / TSX Composite	12,129.11	+ 132.45 points
10 - Year U.S. Treasury Yield	2.49%	– 4 basis points
Canadian Dollar	95.08 cents (U.S.)	– 0.45 cent
U.S. Dollar Index Future (Spot Price)	83.177	+ 0.767 cent
WTI Crude Oil (July)	\$96.56 (U.S.)	+ \$2.87 per barrel

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