

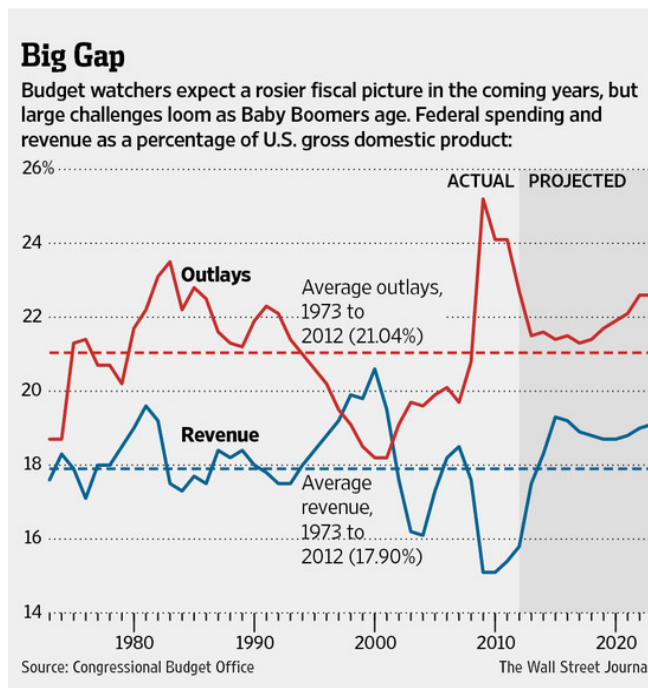
UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE
THAT WAS THE WEEK THAT WAS



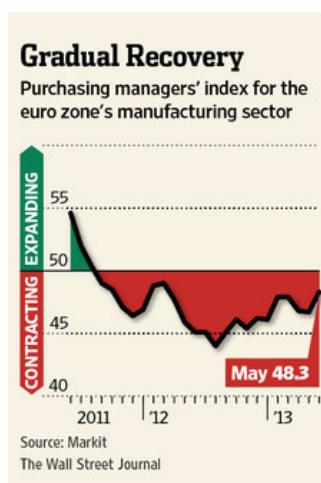
Monday, June 3rd
Front Page Headline, Wall Street Journal – “U.S. Deficit Grand Bargain Even Less Likely.”

Monday, June 3

Shrinking near-term U.S. federal deficits, slowing health care cost increases and partisan political gridlock have all but erased the likelihood for an agreement this year to reduce long-term U.S. fiscal deficits, perhaps delaying a compromise until after the November 2104 mid-term elections. The prospects for such a grand bargain this year have been unclear for some time, but parties to the discussions have revealed that in recent days the chances appear to have further diminished, due to signs the government’s fiscal health is improving. This has removed the pressure to force compromises. In an interview, Senator Bob Corker (R., Tenn.) observed: ‘The intensity that has been evident (for a compromise) is not present today. I sense it in the Congress and around the country; almost a fiscal fatigue has enveloped the subject.’



- The Tempe, Arizona-based Institute for Supply Management (ISM) reports its manufacturing index declined to a reading of 49 in May from a level of 50.7 in April – the fastest pace in 4 years – citing a drop in new orders and export demand.
- The Commerce Department reports U.S. construction spending rose by 0.4% in April to an annual pace of \$860.8 billion (U.S.) citing a 1% increase in private construction projects.
- Front Page Headline, Wall Street Journal – **“The Decline of the Obama Presidency.”** In a WSJ op-ed, reporter Fred Barnes postulates: John Dos Passos, the novelist and historian once said: ‘Often things you think are just beginning are coming to an end.’ While his observation was made in the 1960s, it is true today of Barack Obama’s presidency and the promise of a bright future for his second term. President Obama’s re-election stirred grand expectations. The vote heralded a new liberal era, or so it was claimed. His victory was said to reflect ideological, cultural and demographic trends that could keep Democrats in the majority for years to come. His second four years in the White House would be just the beginning. Now, six months later, the Obama administration is in an unexpected and sharp state of decline. Mr. Obama has little influence in Congress. His presidency has no theme. He pivots nervously from issue to issue. At the moment, what there is of an Obama agenda consists of leftovers from his first term or proposals that he failed to emphasize in his re-election campaign and thus have practically no chance of passage. Congressional Republicans neither trust, nor fear the president; while Democrats on Capitol Hill – to whom Mr. Obama has never been close – have grown leery of him. In the Senate, Democrats complain privately about his interference with the biggest domestic policy matter of 2013, immigration reform. His effect, the senators believe, can only be to weaken the fragile bipartisan coalition for reform and make passage of major legislation more perilous. The Obama breakdown was not caused by the trio of scandals – IRS, Justice Department, Benghazi – now confronting the president. The decline preceded them. It’s the result of what Mr. Obama did in his first term, during the campaign and in the two months following his re-election. However, the scandals have worsened his plight and made a recovery next to impossible. Assuredly, the two problems – the decline and the scandals – are different matters. The scandals have not been linked directly to the president. They are vexing to the administration, but they are not the source of its current impotence. Instead, Mr. Obama’s power and influence have been sapped as a direct result of his own choices and decisions. He also suffers from shortcomings normal to a second term, such as a new, less able team of advisors and cabinet members, plus the arrogance fed by an impressive re-election. In his first term, when Democrats controlled both the House and Senate, Mr. Obama ignored Republicans because he didn’t need their votes to pass the \$800 billion (U.S.) stimulus bill, the Affordable Care Act and Dodd-Frank, with its fresh wave of Wall Street regulations. Then, after Republicans captured the House in the 2010 mid-term election, his efforts to reach agreements with them proved futile. Why did Mr. Obama fail at compromise? For one thing, he is rarely able to mask his contempt for Republicans, especially those with conservative views. For another, he began to question Republicans’ motives, insisting publicly that their paramount goal in Washington is to protect the rich from higher taxes. As a tactic for encouraging compromise, his approach was counterproductive. Mr. Obama used his last bit of leverage to prevail over Republicans in the fiscal cliff debates last December ... ruling out a grand bargain to reduce the deficit and national debt.”
- Markit Economics reports the euro zone purchasing managers’ index (PMI) for the manufacturing sector – which surveys 3,000 purchasing managers across the region – rose by 1.6 points to a reading of 48.3 in May; suggesting the regional economy is on track for a seventh consecutive quarterly contraction of gross domestic product (GDP). Chris Williamson, chief economist at Markit observed: “The currency bloc has been stuck in a rut. Nothing is in place to drive an (economic) recovery at home or abroad.”



- In its latest report, the International Labour Organization warns: “Britain is caught in a vicious spiral of weak aggregate demand and lack of productive investment. Stagnating wages are adversely affecting demand, which in turn is dampening real investment, leading to poor job creation. The number of long-term unemployed has more than doubled since 2007, increasing from 391,000 to more than 902,000. This has not only adverse consequences on individuals and their families, but can also weaken previously stable societies; as opportunities to advance in a good job and improve one’s standard of living become the exception rather than the rule. In addition, many workers have become discouraged and are no longer actively looking for a job ... At the global level, the number of unemployed people will continue to increase unless policies change course. Global unemployment is expected to approach 208 million in 2015, compared with approximately 200 million today.”

Tuesday, June 4

- The Labour Ministry reports Japanese employment increased by 40,000 jobs in April, while the labour force participation rate moved slightly higher to 59.6% from 58.9% in March. Meanwhile, monthly wages – including overtime and bonuses – rose by 0.3% on a year-over-year basis to 273,427 yen (\$2,746 U.S.). Junko Nishioka, chief economist at the Royal Bank of Scotland in Tokyo commented: “The effects of Abenomics are appearing little by little. Wages – mainly bonuses – will probably be on an upward bias as corporate profits are recovering. The improvement in wages will probably support (domestic) consumption.”
- The Commerce Department reports America’s trade deficit increased by 8.5% to \$40.3 billion (U.S.) in April from a downwardly revised \$37.1 billion (U.S.) in March, previously reported as \$38.8 billion (U.S.), citing the lowest petroleum imports in nearly 21/2 years while exports posted a 4-month high.
- Front Page Headline, Globe and Mail – “**Spain’s Registered Unemployed Declines in May, but Macro-Economic Picture Remains Gloomy.** The Spanish Labour Ministry reports the registered jobless total declined by 1.97%, or more than 98,000 people in May, leaving 4.89 million out of work. At a conference today, Industry Minister Jose Manuel Soria declared: ‘The data marked a record drop for May and was the best we’ve seen since the (financial) crisis began.’ However, the data excludes the long-term unemployed and when seasonal factors such as holiday hires by hotels and farmers are included, the decline amounts to only 265 people. Martin Van Vliet, an economist at ING commented: ‘In my view, to say this data supports the onset of a recovery in the labour market is a bridge too far. It is not necessarily a recovery driven by healthy job growth. It could also be influenced by the recent trend of young people moving abroad in search of work.’ Reaching 27% in the 1st. quarter, Spain’s unemployment rate was the highest in the European Union after Greece.
- Front Page Headline, Daily Telegraph U.K. – “**France Risks Being Left Behind by EU Periphery: IMF.** In its periodic review of the country, the International Monetary Fund criticized the significant rigidities in France that had created a triple burden on the economy: ‘Amid declining productivity, French wage growth has been sustained at the expense of (corporate) profit margins, which in turn have undermined the capacity of enterprises to innovate and remain competitive in international markets. Restoring competitiveness in France remains a critical priority, whereupon the government must liberalize its economy and lower labour costs to create (GDP) growth and employment. Europe’s precarious (economic) growth prospects and the high tax burden in France have weighed on spending decisions of households and enterprises.’ Following the release of the review, Edward Gardner, the IMF’s chief economist for France observed: ‘We see deep structural issues affecting (economic) growth potential for France, due to loss of competitiveness as witnessed in losing market share faster than some of its European partners; as well as rigidities in labour and product markets.’”

Wednesday, June 5

- Automatic Data Processing Inc. (ADP) reports the U.S. economy added 135,000 private sector jobs in May, following a gain of 113,000 jobs in April. Mark Zandi, chief economist at Moody’s Analytics commented: “While the labour market continues to expand, growth has slowed since the beginning of the year, due to significant fiscal drag from tax increases and government spending cuts.”

Car sales helped by jobs growth

- Private payrolls growth, in thousands, left
- Total light vehicle sales, SAAR, in millions, right

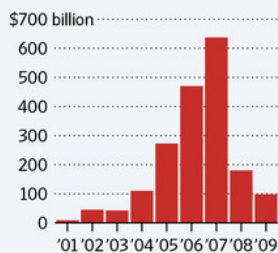


Source : Haver Analytics/Autodata/Labor Department

- Front Page Headline, Wall Street Journal – **“One of Wall Street’s Riskiest Investments Returns.** Investors are once again clamoring for a risky investment blamed for helping unleash the financial crisis in 2007: the synthetic collateralized debt obligation (CDO). London bankers at J.P. Morgan Chase and Morgan Stanley are attempting to satisfy a voracious investor demand for higher yields during a period when the prevailing level of interest rates is ultra-low. CDOs – backed by derivatives – afford investors the opportunity to assume more risk by investing in a securitized pool of companies with a diversity of credit ratings. Brian Reynolds, chief market strategist at the brokerage firm of Rosenblatt Securities noted: ‘The interest by potential investors in synthetic CDOs reveals that the demand for higher returns is intense. Wall Street will create new, more complex, more risky structures to satisfy that demand.’”

Blast From the Past

Collateralized debt obligations backed by derivatives, annual issuance



Note: Issuance since 2009 has been minimal
Source: Creditflux

- Front Page Headline, Daily Telegraph U.K. – **“During Greek Bailout, EU Put Euro Zone Safety First: IMF.** An internal report by the International Monetary Fund – leaked to the Wall Street Journal – regarding the handling of the Greek sovereign debt crisis, has identified a catalogue of errors which led to the IMF breaking three out of four of its own rules, relating to lending money to bankrupt countries. The IMF also admits that the impact of austerity policies in Greece was badly underestimated, as EU institutions and leaders tried to save their political hides at the expense of the Greek economy. The report explained that in 2010, the IMF lent 36 billion euros to Greece, despite ‘a risk so significant that staff was unable to vouch that public debt was sustainable.’ While the IMF did scale back its contribution to a second Greek bailout in 2012, amid growing concerns over whether the debt could be repaid without devastating economic consequences, its loan to Greece is the largest ever in the IMF’s history, relative to the size of the recipient country’s economy. Most damaging of all is the IMF admission that the Greek bailout was not drawn up to help Greece, but rather was a ‘holding operation which gave the euro area time to build a firewall to protect other vulnerable EU members and avert potentially severe effects on the global economy’ ... The IMF report is also scathing about the so-termed troika, a body which was created when the IMF joined forces with the European Commission and the European Central Bank to administer the first 110 billion euro Greek bailout in 2010. The indictment of the troika will have wider resonance because, as well as administering Greece, it also oversees the economies of the other bailed out euro zone countries – Ireland, Portugal and Cyprus. For 18 months, until December 2011, the troika failed to revise Greek austerity targets, effectively making them impossible to achieve as Greece’s economy worsened much more than the official forecasts suggested, including those by the IMF. In addition, the report stated: ‘The fiscal targets became even more ambitious once the (economic) downturn exceeded expectations. Moreover, the EC tended to draw up policy positions by consensus, had enjoyed limited success with limiting austerity (measures) and had no experience in crisis management.’”

Thursday, June 6

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 11,000 to a seasonally adjusted 346,000 in the week ended June 1st.
- Front Page Headline, Daily Telegraph U.K. – **“Hard-line ECB Embraces Strategy of Pontius Pilate.** European Central Bank President Mario Draghi washes his hands of the EU jobless crisis by refusing to take any further measures to lift the euro zone out of recession, citing: ‘recent market volatility has not changed the fundamental (economic) picture and is not enough to justify (any) immediate (stimulus) action.’ David Owen, an analyst at Jeffries Fixed Income commented: ‘The ECB seems to have given up. It is as if they have decided that there is not much more they can do and will simply allow events to run their course.’ However, Holger Schmieding, Berenberg’s chief economist, noted: ‘Mr. Draghi is constrained from taking any action before a crucial decision next week by Germany’s constitutional court regarding the legality of the ECB’s rescue policies, including its pledge to support the Italian and Spanish debt markets via Outright Monetary Transactions (OMT). This is now the most important risk to monitor in the euro zone. We cannot fully rule out an awkward verdict in which the court may, for instance, attach conditions to any Bundesbank/German participation in ECB actions.’

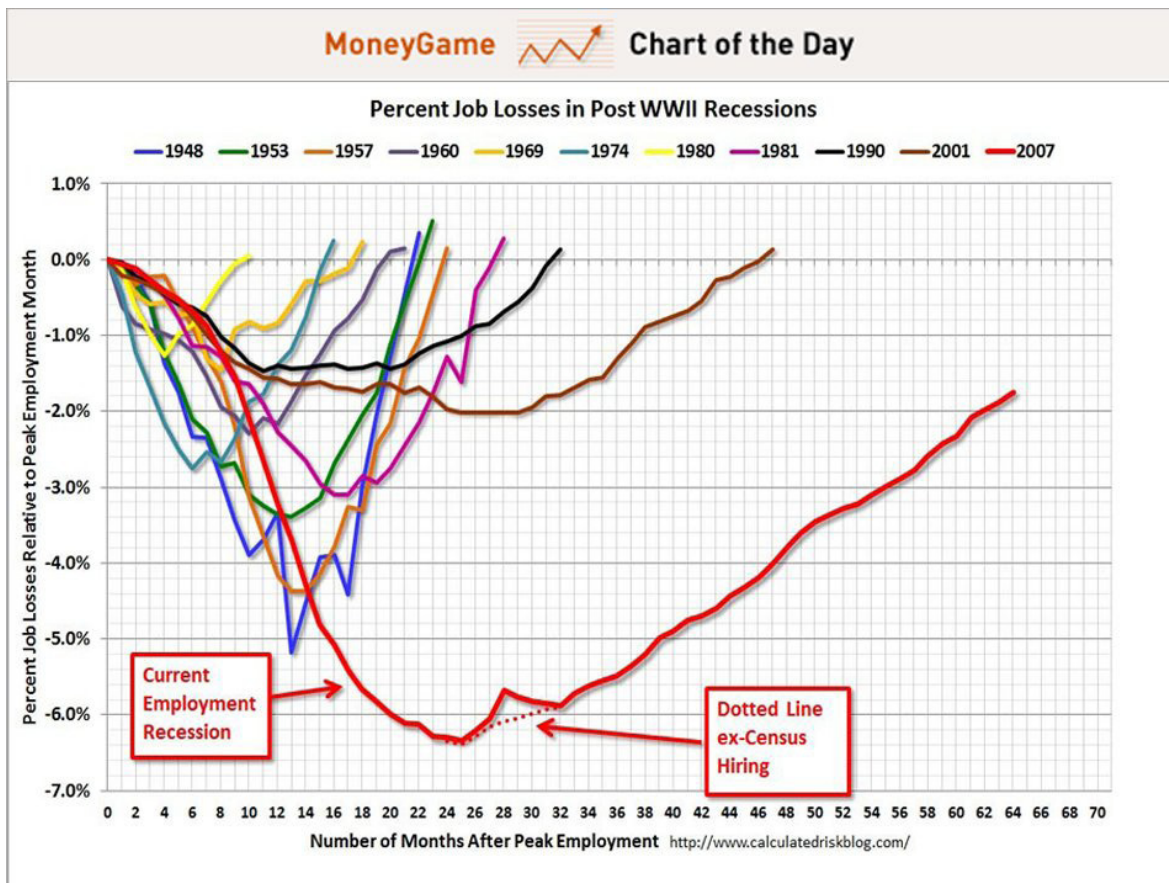


Berenberg’s Chief Economist Holger Schmieding.

Source: Web blog.

Friday, June 7

- The Labor Department reports U.S. non-farm payrolls increased by a seasonally adjusted 175,000 in May, following a revised gain of 149,000 in April previously reported as an increase of 165,000. The labor force participation rate moved slightly higher to 64.3% in May from 63.3% in April; as did the official unemployment rate to 7.6% from 7.5%.

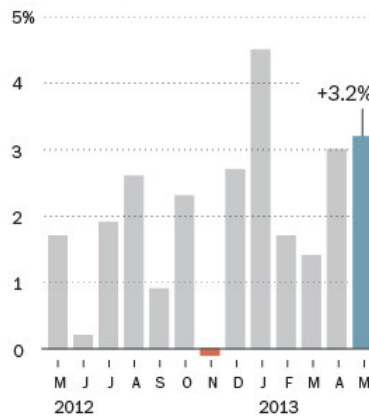


- Statistics Canada reports the nation's employment rose by 95,000 in May – the most since August 2002 – citing industry gains ranging from construction to retailing, while the unemployment rate edged slightly lower to 7.1% in May from 7.2% in April. Paul Ferley, an economist at the Royal Bank of Canada commented: 'The employment report is providing some support to indications that we are experiencing stronger (GDP) growth over the first half of this year, compared to the disappointing second half of last year.'
- The Economy Ministry in Berlin reports German industrial production rose by 1.8% in April, following a gain of 1.2% in March. Mario Gruppe, an economist at Nord LandesBank in Hannover commented: 'The German economy is gradually exiting the weak phase that it had at the beginning of the year. However, it is a growth path that has a few potholes. It will be a recovery that now and again experiences setbacks.'
- The Office for National Statistics reports Britain's trade deficit narrowed to 8.2 billion pounds (\$12.8 billion U.S.) in April from 9.2 billion pounds in March. Howard Archer, an economist at IHS Global Insight in London observed: "It seems unlikely that net trade can significantly help the U.K. economy in the near term, given the ongoing weak domestic demand in the euro zone and moderate global (economic) growth. The hope is that the overall marked weakening of the pound earlier in the year will increasingly feed through to boost exports." Indeed, British exports to the euro currency bloc declined by 2.3% in April, their lowest level since February 2011.

- The International Council of Shopping Centers reports U.S. retail chain-store sales – at outlets open for at least a year – rose by 3.2% in May, following a 3% increase in April. The retailers that report monthly data represent about 6% of the \$2.4 trillion (U.S.) American industry sales. The list excludes big chains such as Wal-Mart, Target and Macy’s.

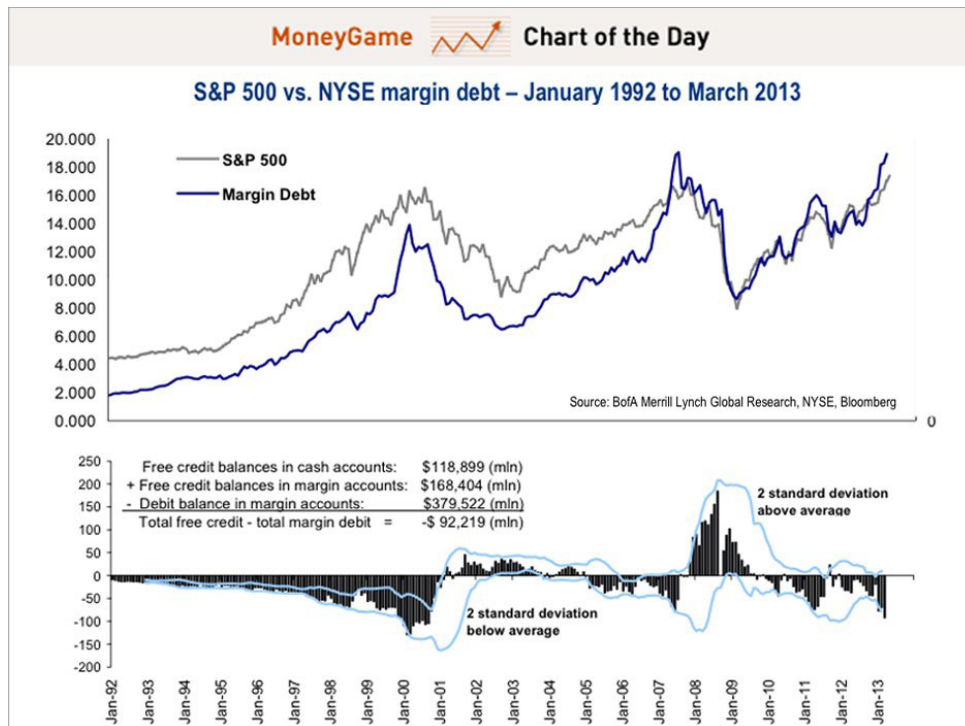
Retail chain-store sales

Percentage change in sales compared with the same month a year earlier.



NOTE: Only includes stores open at least a year. Excludes Wal-Mart.
Source: International Council of Shopping Centers
THE WASHINGTON POST

- Front Page Headline, Business Insider – **“Investors Are Leveraging their Equity Portfolios to the Max.** In a recent note to clients, Bank of America Merrill Lynch’s Stephen Suttmeier observes: ‘Leverage can be used as a (market) sentiment indicator because it is related to investor confidence. Current levels for both Net Free Credits and NYSE Margin Debt -- \$380 billion (U.S.) as of last March – indicate a (strong) bullish sentiment in the equity market. For a market contrarian, it is a distinctly bearish signal.’



CLOSING LEVELS FOR FRIDAY, June 7th		WEEKLY CHANGE
Dow Jones Industrial Average	15,248.12	+ 132.55 points
Spot Gold Bullion (August)	\$1,383.00 (U.S.)	– \$10.00 per oz.
S&P / TSX Composite	12,373.30	– 277.12 points
10 - Year U.S. Treasury Yield	2.17%	+ 4 basis points
Canadian Dollar	98.06 (U.S.)	+ 1.61 cents
U.S. Dollar Index Future (Spot Price)	81.688	– 1.608 cents
WTI Crude Oil (July)	\$96.03 (U.S.)	+ \$4.06 per barrel

Ian A. Gordon, The Long Wave Analyst www.longwavegroup.com

Disclaimer : This information is made available by Long Wave Analytics Inc. for information purposes only. This information is not intended to be and should not be construed as investment advice, and any recommendations that may be contained herein have not been based upon a consideration of the investment objectives, financial situation or particular needs of any specific reader. All readers must obtain expert investment advice before making an investment. Readers must understand that statements regarding future prospects may not be achieved. This information should not be construed as an offer to sell, or solicitation for, or an offer to buy, any securities. The opinions and conclusions contained herein are those of Long Wave Analytics Inc. as of the date hereof and are subject to change without notice. Long Wave Analytics Inc. has made every effort to ensure that the contents have been compiled or derived from sources believed reliable and contain information and opinions, which are accurate and complete. However, Long Wave Analytics Inc. makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions which may be contained herein, and accepts no liability whatsoever for any loss arising from any use of or reliance on this information. Long Wave Analytics Inc. is under no obligation to update or keep current the information contained herein. The information presented may not be discussed or reproduced without prior written consent. Long Wave Analytics Inc., its affiliates and/or their respective officers, directors or employees may from time to time acquire, hold or sell securities mentioned herein. In addition, the companies referred to herein may pay a fee to Long Wave Analytics Inc. to be listed on www.longwavegroup.com. Copyright© Longwave Group 2013. All Rights Reserved.

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