

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

Monday, May 20th
Front Page Headline, New York Times – “Sections of America’s Midwest High Plains Aquifer Tapped Out.”

Monday, May 20th

Victoria Day Holiday in the British Commonwealth

Section 35 in west-central Kansas, sits atop the High Plains Aquifer, a waterlogged jumble of sand, clay and gravel that begins beneath Wyoming and South Dakota and stretches clear to the Texas Panhandle. The aquifer’s northern reaches still hold enough water in many places to last hundreds of years, however, as one heads south it is increasingly tapped out; drained by ever more intensive farming and lately by drought. Vast stretches of Texas farmland lying over the aquifer no longer support irrigation. In west-central Kansas, up to 20% of the irrigated farmland along a 100-mile swath of the aquifer has already gone dry. In many other places, there is no longer enough water to supply farmers’ peak needs during Kansas’ scorching summers. Moreover, when the groundwater runs out, it is gone for good. Refilling the aquifer would require hundreds, if not thousands, of years of rains. In many ways, this is a slow motion crisis – decades in the making and imminent for some, while years or decades away for others – hitting one farm and leaving an adjacent one untouched. However, across the rolling plains and tarmac-flat farmland near the Kansas-Colorado border, the effects of depletion are evident everywhere. Highway bridges span arid streambeds. Most of the creeks and rivers that once veined the land have dried up, as 60 years of pumping have pulled groundwater levels down by scores and even hundreds of feet. On some farms, big center-pivot irrigators – the spindly rigs that create the emerald circles of cropland familiar to anyone flying over the region – are now watering only a half-circle. On other farms, they sit idle altogether. Two years of extreme drought, during which farmers relied almost completely upon groundwater, have brought the seriousness of the problem home. In 2011 and 2012, the Kansas Geological Survey reported: ‘the average water level in the state’s portion of the aquifer dropped by 4 1/4 feet – nearly one third of the total decline since 1996.’

- Front Page Headline, MarketWatch News – **Monstrous Tornado Devastates Moore, Oklahoma.** A violent tornado swept through the City of Moore, just south of Oklahoma City killing 24 people – including at least 9 children – and laying waste numerous buildings, three elementary schools and about 2,800 houses; with 237 people suffering injuries. The massive tornado leveled Plaza Towers Elementary School in Moore, a city of 55,000 people. Jerry Lojka, an official with the Oklahoma Department of Emergency Management observed: ‘Rescue workers are trying to turn over every stick to find survivors at the school.’ The monster tornado packed winds ranging from 166 mph. to 200 mph. and cut a swath 1 to 2 miles wide over a distance of 17 miles.”



A mobile home is overturned by Monday's tornado.

Source: Getty Images



Source: Washington Post

Tuesday, May 21st

- The Office for National Statistics reports the U.K. consumer price index (CPI) rose by 2.4% in April on a year-over-year basis, down from 2.8% in March. David Tinsley, an economist at BNP Paribas SA in London commented: “The CPI data support our view that inflationary pressures are set to wane due to lower import prices and because domestic cost pressures, such as for fuel, are subsiding.”
- Front Page Headline, Globe and Mail – **“Rubber Bullets Fired at South African Striking Miners.** Johannesburg police report several striking miners were hospitalized today after being hit by rubber bullets fired by security guards at stone throwing wildcat strikers at a chrome mine near the platinum belt town of Rustenburg; as labour strife swells in mines and factories ahead of mid-year wage negotiations. Auto maker Mercedes Benz reported a two-day wildcat stoppage at its East London plant had ended, but the National Union of Metal Workers of South Africa (NUMSA) squashed any relief with an immediate demand for a 20% pay increase. South Africa’s annual mid-year wage negotiations – known locally as ‘strike season’ – normally begin with lofty wage demands that are eventually downsized close to the inflation rate, currently about 6%.”



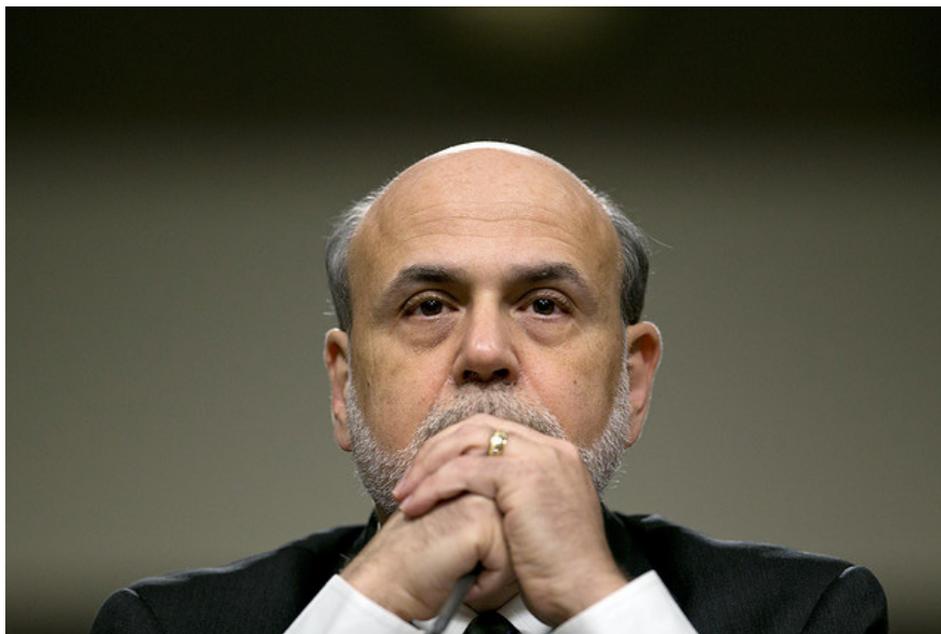
Striking miners react when addressed by union leaders.

Source: Reuters

Wednesday, May 22nd

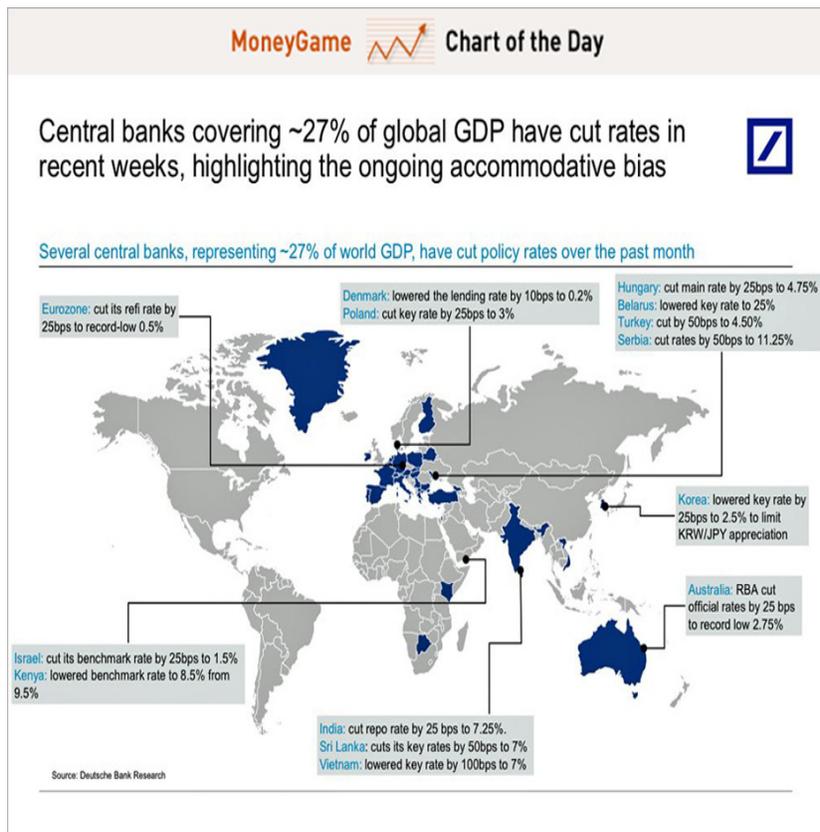
- The National Association of Realtors reports U.S. existing home sales rose by 0.6% in April to an annual rate of 4.97 million units – the most since November 2009 – citing low inventories and stricter rules for mortgage applications. Foreclosures and other distressed sales accounted for 18% of April’s sales, while first-time buyers accounted for 29%.
- Front Page Headline, Bloomberg News – **“Federal Open Market Committee (FOMC) Leaves Monetary Policy Unchanged.** In testimony before the Joint Economic Committee of Congress in Washington, U.S. Federal Reserve Chairman Ben Bernanke reasoned: ‘A premature tightening of monetary policy could lead interest rates to rise temporarily, however, this would also carry a substantial risk of slowing, or ending the economic recovery and cause inflation to decline further ... The expiration of the payroll tax reduction in January and tax increases; as well as automatic spending cuts imposed by Congress (sequestration) and lower military spending, will collectively assert a substantial drag on the (domestic) economy this year. Although near-term fiscal restraint has increased, much less has been done to address the federal government’s fiscal imbalances. Indeed, the Congressional Budget Office projects that under current policies, the federal deficit and debt as a percentage of gross domestic product (GDP) will begin rising again

in the latter part of this decade and move sharply upward thereafter, in large part reflecting the aging of our society and projected increases in health care costs, along with mounting debt service payments. To promote (domestic) economic growth and stability over the longer term, it will be essential for fiscal policymakers to put the federal budget on a sustainable long-run path. ... In considering whether a recalibration of the pace of our (quantitative easing) purchases of Treasuries and mortgage-backed securities is warranted, the FOMC will continue to assess the degree of progress made toward its objectives in light of incoming economic data.”



Fed Chairman Bernanke takes questions from Joint Economic Committee.

Source: Bloomberg News



Thursday, May 23rd

- The Office for National Statistics reports the U.K. gross domestic product (GDP) rose by 0.3% in the 1st. quarter, citing a 2.5 billion pound (\$3.8 billion U.S.) increase in corporate inventories and a 0.1% rise in consumer spending, but exports declined. As noted by the International Monetary Fund (IMF) yesterday: 'The U.K. economy remains a long way from a strong and sustainable recovery.'
- In a survey of more than 24,000 German companies, 41% of businesses polled by the Association of German Chambers of Industry and Commerce revealed: "Burgeoning hopes for a revival of foreign business from the beginning of the year haven't materialized to date. In the coming months, exports aren't likely to grow dynamically."
- The Commerce Department reports U.S. new home sales rose by 2.3% in April to an annualized rate of 454,000 units, following a pace of 444,000 in March, citing continuing low mortgage rates and higher property values.
- London-based Markit Economics reports a euro-area services and factory output composite index – based on a survey of purchasing managers in both industries – rose to a reading of 47.7 in May from a level of 46.9 in April.
- HSBC Holdings Plc and Markit Economics report a preliminary May reading of 49.6 for China's manufacturing purchasing managers' index (PMI), following a final level of 50.4 for April. Ken Peng, an economist at BNP Paribas in Beijing, commented: "The (economic) slowdown is really bad. It's a big probability now that China's gross domestic product growth rate in the 2nd. quarter will be lower than in the 1st. quarter."
- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 23,000 in the week ended May 18th. to a seasonally adjusted 340,000, while continuing claims fell by 112,000 to 2.91 million in the week ended May 11th.
- Front Page Headline, London Evening Standard – **"IMF's Lagarde in French Court Charged with Embezzlement and Fraud.** The charges emanate from the period when Christine Lagarde was President Nicolas Sarkozy's finance minister, when she is said to have authorized a payment of 270 million pounds to Bernard Tapie – a convicted football match fixer and tax dodger who supported Lagarde and Sarkozy's UMP party – and by so doing abused her government position. A special tribunal has been struck for the inquiry in the Paris-based Court of Justice of the Republic, which judges the conduct of France's government ministers. Ms. Lagarde's lawyer, Yves Repiquet, related to the press that he expects the case to be dismissed.



IMF Managing Director Christine Lagarde

Source: London Evening Standard

Friday, May 24th

- The Commerce Department reports orders for U.S. durable goods – those expected to last at least three years – rose by 3.3% in April following a decline of 5.9% in March, citing higher demand for aircraft, automobiles and military wares. Scott Brown, chief economist at Raymond James and Associates in St. Petersburg, Florida, noted: “This report is consistent with the economy continuing to recover, albeit at a moderate pace. We are not getting much foreign demand, but we are seeing (some) domestic growth.”
- Front Page Headline, Globe and Mail – **“Chile Freezes Barrick’s Pascua-Lama Gold Mining Project.** Citing ‘very serious violations’, the Superintendencia del Medio Ambiente has fined Toronto-based Barrick \$16 million (U.S.) and ordered the company to take ‘urgent measures’ to complete a water management system to prevent contamination around the mine site. In an interview, Barrick spokesman Andy Lloyd stated: ‘There were some reporting requirements with which we hadn’t fully complied and there were aspects of the water management system which were not completed on time. That was the nature of the things the fine is for because they didn’t fine us for polluting.’ In addition, Barrick issued a statement acknowledging that certain components of the project deviated from construction plans: ‘The company is in the process of reviewing the SMA resolution in detail. Barrick is fully committed to complying with all aspects of the resolution and to operating at the highest environmental standards.’”

CLOSING LEVELS FOR FRIDAY, May 24th		WEEKLY CHANGE
Dow Jones Industrial Average	15,303.10	– 51.30 points
Spot Gold Bullion (June)	\$1,386.60 (U.S.)	+ \$21.90 per oz.
S&P / TSX Composite	12,667.22	+ 54.17 points
10 - Year U.S. Treasury Yield	2.01%	+ 6 basis points
Canadian Dollar	96.89 (U.S.)	– 0.28 cent
U.S. Dollar Index Future (Spot Price)	83.64	– 0.48 cent
WTI Crude Oil (June)	\$94.15 (U.S.)	– \$1.87 per barrel

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