Monday May 6, 2013

LONGWAVE group

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

THAT WAS THE WEEK THAT WAS

Monday, May 6th

Front Page Headline, Daily Telegraph U.K. – “German Euro Founder Suggests EMU Dissolution.

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Expressing his views on the parliamentary website of Germany’s Left Party, Oskar Lafontaine, the German finance minister who launched the euro stated: ‘I no longer believe the European Monetary Union to be sustainable. The European economic situation is worsening from month to month and unemployment has reached a level which puts democratic structures ever more in doubt. Hopes that the creation of the euro would force rational economic behavior on all sides were in vain. The EU policy of forcing Spain, Portugal and Greece to carry out internal devaluations has been a catastrophe. The Germans have not yet realized that southern Europe, including France, will be forced by their current misery to fight back against German hegemony sooner or later. German Chancellor Angela Merkel will awaken from her self-righteous slumber once the countries in trouble unite to force a change in crisis policy at Germany’s expense.”

- Front Page Headline, Globe and Mail – **“IMF Criticizes Greece for Notorious Tax Evasion by the Rich.** In a new report, The International Monetary Fund noted: ‘While Greece’s (domestic) achievements have been on the back of unprecedented bailout support from international lenders in the amount of 173 billion euros ($230 billion CAD), insufficient structural reforms have meant that (economic) adjustments have been achieved primarily through recessionary channels.’ The IMF made three key points:

    1. ‘Very little progress has been made in tackling Greece’s notorious tax evasion. The rich and self-employed are simply not paying their fair share, which has forced an excessive reliance upon across-the –board expenditure cuts and higher taxes on those earning a salary or a pension.’

    2. Labour reforms are lowering wages, but prices have not declined as quickly ‘because of a failure to liberalize closed professions and more generally, open up to competition.’

    3. Unemployment levels are surging in the private sector, notably among the youth, but ‘the over-staffed public sector has been spared, because of a taboo against dismissals.’

There is no more room for tax hikes and spending cuts. A strong (economic) recovery must be built primarily on deepening structural reforms. The focus should be on invigorating Greece’s export and import competing industries. This will require a more determined and ambitious effort to reduce barriers to entry into various markets, including opaque and lengthy licensing procedures. Moreover, too many assets remain in state hands.”

- Front Page Headline, Mish's Global Economic Trend Analysis – **"California's State / Local Governments Confront $1 Trillion (U.S.) in Debt.** A study released today by the California Public Policy Center entitled: Calculating California's Total State and Local Government Debt has estimated that state and local government debt is somewhere between $848 billion (U.S.) and $1.12 trillion (U.S.) ... From the CPPC summary, here are the categories of government debt confronting Californians: 'When, along with the $27.8 billion (U.S.) 'Wall of Debt,' long-term debt incurred by California's state, county and city governments; along with school districts, redevelopment agencies and special districts are totaled, the outstanding balance is $383 billion (U.S.). The officially recognized unfunded liability for California's public employee retirement benefits – pensions and retirement health care – adds another $265.1 billion (U.S.). Applying a potentially more realistic discount rate to calculate the unfunded pension liability adds an additional $200.3 billion (U.S.). All of these outstanding debts combined total $848.4 billion (U.S.). By extrapolating from available data that is either outdated or incomplete and using a 4.5% discount rate to calculate the unfunded pension liability, the estimated total debt soars to over $1.1 trillion (U.S.). According to an April 29th. Wall Street Journal editorial entitled Debt and Growth, former White House economist Larry Summers suggested that 'America should borrow even more money today because interest rates are low.' Summers is not alone. However, hasn't America heard this song already and quite recently? What happened to all those homeowners who borrowed money because the payments were low, then suddenly realized they owed more money than they could ever hope to repay? There is cruel hypocrisy at work here. Low interest rates mean people saving for retirement cannot hope to amass a nest egg big enough to earn a risk free return sufficient to live on. Yet the government worker pension funds engage in massive risk in a desperate attempt to earn 7.5% a year, so government workers can enjoy pensions that a private sector worker would have to save millions to match. If they fail to get that 7.5%, taxpayers make up the difference. Hypocrisy abounds. Unions representing public educators train their members to teach their students that capitalism is the problem, that 'corporate greed' is why their parents struggle to make ends meet. Yet without corporate profits, the pension funds – whose 7.5% annual earnings guarantee them an early retirement with an income that dwarfs what private workers get from social security – would implode. As shown in the CPPC study, for every 1% the projected rates of return for the pension funds drop, the debt confronting Californians increases by $100 billion (U.S.). The official estimate for this shortfall, acknowledged by the state controller, is $128 billion (U.S.). If you lower that projected rate to 5.5%, add another $200 billion (U.S.) to the unfunded liability. Do you think that's still too high? If those pension funds only earn 4.5%, add another $126 billion (U.S.) to the unfunded liability for pensions. So, why shouldn't pension funds earn only 4.5% in today's debt saturated, aging society, where 30-year Treasurys are offering a paltry 2.8% yield to maturity and a 30-year fixed rate mortgage is down to 3.25%? With all this nearly free money around – courtesy of our government which spends far too much to borrow at any decent rate of interest – where on earth will CALPERS and the other pension funds invest their money with the expectation of getting a return of 7.5% per year?"

Total California Debt, Table 7 ($=B)

Total State & Local Government Debt

	$	%
State Government	132.6	15.6
K-12 Public School Districts	49.7	5.9
City Governments	68.1	8.0
County Governments	22.1	2.6
Redevelopment Agencies & Special Districts	110.4	13.0
Unfunded Pension Liabilities - official @ 7.5%	128.3	15.1
Additional Pension Liability @ 5.5%	200.3	23.6
Unfunded Retiree Healthcare Liability	136.8	16.1
Total Outstanding Debt	848.4	

- Front Page Headline, Wall Street Journal – **"SEC Charges Harrisburg Misled Bond Investors.** The U.S. Securities and Exchange Commission has charged the City of Harrisburg, Pa., with securities fraud for allegedly making misleading public statements which appeared in the city's budget report, financial statements and a state-of-the-city address. Harrisburg has agreed to settle the charges without admitting or denying the findings and no fine has been levied against it. The allegations marked the first time the SEC had charged a municipality for misleading statements made outside of its securities disclosure documents. The Pennsylvania capital has been mired in debt for years, stemming largely from cost overruns related to a troubled incinerator project. The city of 49,500 was nearly forced into bankruptcy in 2011, when Republican Governor Tom Corbett declared a state of fiscal emergency and a state court appointed a receiver to oversee the city's finances. Cory Angell, a spokesman for the current receiver William Lynch, commented: 'The settlement bodes well for the city to put this matter behind it. We're pleased to see that the SEC didn't levy any fines on the city, which could have made it more challenging. The city is nearing a deal to sell the incinerator and parking assets; as well as negotiating labor cost savings with the city's unions. We remain focused on the implementation of the recovery plan."

Tuesday, May 7th

- Front Page Headline, Financial Post – **"Barrick Gold Raises $3 Billion (U.S.) with Bond Issue.** Barrick Gold Corp.'s sale of $3 billion (U.S.) in debt is expected to provide enough financing to complete its planned capital spending for the next two years, including the Pascua Lama project. RBC Capital Markets analyst Stephen Walker estimates Barrick can meet its debt obligations and complete its current development plans – without requiring financing or selling non-core assets – even if the price of gold declines as low as $1,200 (U.S.) per ounce … As the market awaits details of the impact on capital and timing, after Barrick suspended development of the Pascua Lama project in Chile, RBC expects the company will continue with approximately $3.7 billion (U.S.) in planned capital spending before the mine is set to be commissioned in the second half of 2014."

Barrick's Pascua Lama project straddling the Chile/Argentina border. Source: Barrick Gold

- Front Page Headline, Wall Street Journal – **"Portugal Regains Access to the Fixed Income Market.** Portugal issues 3 billion euros ($3.92 billion U.S.) of 10-year bonds at a yield of 5.66%; its first 10-year bond issuance since requesting a financial bailout in April 2011. Nicholas Gartside, international CIO for fixed income at J.P. Morgan Asset Management commented: 'This is an important step towards Portugal demonstrating it has capital market access again, which could potentially help lift the country's sovereign credit rating from junk status."

- Following today's monetary policy meeting, the Reserve Bank of Australia (RBA) lowered its administered interest rate by 1/4 point to a record low 2.75%. In a news release, RBA Governor Glenn Stevens stated: 'The central bank has decided that a further decline in the cash rate was appropriate, in order to encourage sustainable growth in the domestic economy. We expect it is likely that the global economy will register economic growth a little below trend this year, before picking up next year."

- Markit Economics reports Germany's purchasing managers' index (PMI) for the services sector – compiled by a survey of at least 1,000 business leaders – declined to a reading of 49.6 in April from a level of 50.9 in March. Adding to the gloom, while the euro zone services PMI reading rose slightly from 46.5 in March to 46.9 in April, it remained below 50 indicating contraction. Chris Williamson, chief economist at Markit, commented: 'The PMI data suggest that, having eased in the 1st. quarter of the year, the euro zone's economic downturn is likely to have gathered momentum again in the second quarter. Strong downturns in France, Spain and Italy have broadened out to encompass Germany again with lower domestic demand exacerbated by export losses due to a weakening of economic growth in other countries, such as the U.S. and China. Meanwhile, the unemployment rate which hit a record high of 12.1% in March, also looks set to rise further, given the ongoing steep rate of job losses recorded in April."

- Front Page Headline, Daily Telegraph U.K. – **"America's Debt Reduction Plans Too Abrupt: IMF.** Lecturing during the 'Room for Discussion' forum – a weekly interview program by and for students of the Economics Faculty and Business Administration of the University of Amsterdam – Christine Lagarde, Managing Director of the International Monetary Fund, stated: 'The U.S. government's debt reduction plans are too abrupt, including the $85 billion (U.S.) in federal budget cuts known as the sequester. If current policies are maintained this year, the American gross domestic product (GDP) would be contracting by over 1.5%."

- Front Page Headline, Market-Ticker.org - **"Fed Money Printing Initiatives Out of Gas: Karl Denninger.** In an interview with USA Watchdog.com creator Greg Hunter:

  Hunter: I realize that you have never bought the so-termed 'economic recovery' story.

  Denninger: Just the opposite is happening right now. When you look at the indicies in the context of the last three or four months, what you see is a deteriorating picture ... deteriorating employment, deteriorating final demand, deteriorating everything.

  Hunter: So, will the Fed print even more money?

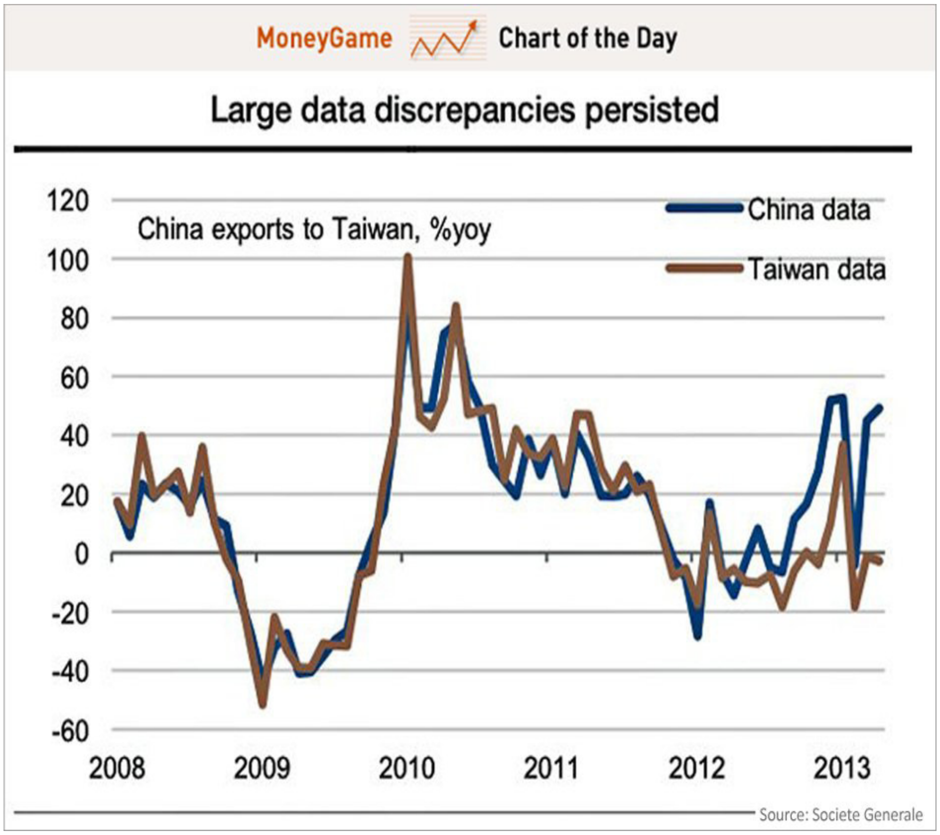
  Denniger: It might, but that won't help. We're witnessing the leading edge of a great deal of (economic) softness and this means the Fed's monetary initiatives have run out of gas. A weak economy will be the backdrop for Obama Care in 2014, which basically transfers health care costs to the government. If you shift more of the private expense into the government, all you do is bankrupt the government sooner. How does this solve a health care problem? We are sowing the seeds of the next (market) crash ... and yes, there will be losses."

Financial analyst Karl Denninger Source: USA Watchdog

- Front Page Headline, Global Research – **"The Social Crisis in America / The Myth of an Accelerated Economic Recovery.** U.S. stock markets have surged recently to new record highs, as Wall Street traders seized upon tepid jobs reports to engage in a fresh orgy of speculation. The official line promoted by the Obama administration is the United States is in the midst of an accelerating economic recovery. For the corporate and financial elite which runs America, and the section of the upper middle-class which hangs on its coattails, a soaring stock market is indeed what defines economic health. For the vast majority of the population, however, life five years after the Wall Street crash of 2008 is dominated by the daily struggle to make ends meet. Official statistics – of poverty, unemployment, indebtedness, declining wages – yield a glimpse of this social reality, which the mass media does its best to obscure. One sobering statistic that emerged last week points to the social reality that underlies the euphoria on Wall Street. According to the Centers for Disease Control and Prevention, the past decade has recorded a sharp increase in the American suicide rate. Among those aged 35 to 64, suicides soared nearly 30% between 1999 and 2010. More people in the U.S. now take their own life than die in car accidents. The fundamental cause is no mystery. It is the economic crisis, which has brought with it a rise in unemployment, poverty, malnutrition, illness and homelessness; plus all of the personal and family problems that are attendant with these scourges. The social crisis affects all sections of the working population – young and old, working and unemployed – of all races, genders and ethnicities. For millions of older workers, the prospect of economic security and a decent retirement is growing ever more distant as the elderly are forced to dip into their savings and assume ever greater debt levels just to survive. According to Federal Reserve figures, the debt of Americans aged 65 to 74 is rising faster than that of any other age group. For a typical household led by someone 65 or older, household debt grew by more than 50% between 2000 and 2011. Moreover, the insufficient benefits provided by Social Security and Medicare – the federal retirement and health care programs –are being scaled back. Fewer and fewer retirees can boast a guaranteed pension. Among those who do, many have resorted to borrowing against their pensions and paying usurious interest rates to unscrupulous lenders. Last week, the New York Times reported that companies that offered pension advances often charge interest rates, after factoring in fees, of between 27% and 106%. According to figures from the Employee Benefit Research Institute, older households spent 7.1% of their incomes to pay off debt in 2010, up from 4.5% three years earlier. Recently, Wells Fargo reported that the number of older workers borrowing from their 401(K) retirement accounts – and paying penalties to do so – surged by 28% at the end of 2012, compared to the same period in 2011. Conditions are no better at the other end of the age spectrum. Almost 16 million children in the U.S., or 22%, live in families whose income is below the federal poverty line, according to the National Center for Children in Poverty. Last month, the United Nations Children's Fund released a report showing that, among developed countries, the United States ranks 26th. out of 29, behind Greece and just above Lithuania, Latvia and Romania, in terms of the percentage of children living in poverty. Every year, 1.3 million students drop out of high school in the United States and according to the National Center for Education Statistics, low-income students fail to graduate at six times the rate of higher-income youth. Those students who attend college are increasingly saddled with student loans they will never be able to repay. Between 2003 and 2012, the portion of 25-year olds with student debt rose from 25% to 43%. In the face of high unemployment and falling wages, marriage and home ownership are becoming too expensive for many. Home ownership rates are at the lowest level in eighteen years, while the percentage of children born out of wedlock has grown from 31% in 2005 to 36% in 2011, according to Census Bureau figures released this week. The Census report noted: 'Children who are born to unmarried parents are more likely to live in poverty and to have poor developmental outcomes.' In 2010, 42.3% of families headed by single females with children were in poverty, according to the Demos Project. Overall, the current U.S. poverty rate, estimated at 16.1%, is the highest since 1965. According to the Census Bureau's supplemental poverty measure, there are a staggering 49.7million people in the United States who are in poverty. More than 48% of the population is poor or near poor, meaning they make less than double the official poverty rate. Nor is poverty confined to the unemployed. According to a report issued last month by the U.S. Census Bureau, the percentage of the population who are working poor rose dramatically, from 5.1% in 2006 to 7% in 2011. One quarter of all those in poverty – about 10.4 million people – are working. The bulk of new jobs are in low-paid service industries and even manufacturing workers increasingly make as little as $10 (U.S.) an hour – a poverty wage for a family of four. The effects of poverty are myriad. According to one recent study, 80 million adults in the U.S. – about 43% of the total population – did not get medical care sometime in 2012 because they could not afford it. This is up a shocking 17 million since 2003. Growing poverty and social distress are treated essentially as non-issues by the mass media. According to a recent study by the Pew Research Center, the U.S. media focused just one fifth of one percent of its new coverage on the topic of poverty ... In an earlier period, such indicies of social distress would have been treated as a national disgrace. Today, far from proposing any measures to address the social crisis, the Republicans and Democrats, with the Obama administration in the lead, vie with each other over how best to slash Social Security, Medicare and other vital social programs. There is a deep and growing anger directed against the entire social system and a ruling elite which grows rich from the impoverishment of the broad masses of the people. This sentiment can find no expression within the framework of the existing political system." **See also,** **Economic Winter, Federal Governments: The U.S. Republic and the Canadian Constitutional Monarchy – February 22, 2012.**

Wednesday, May 8th

- The General Administration of Customs in Beijing reports China's exports rose by 14.7% in April, citing a 57.2% increase in shipments to Hong Kong, but prompting widespread skepticism among analysts and economists on the reliability of the country's trade data. Since China's exports to the U.S. and Europe actually declined during April, the Royal Bank of Scotland Group (RBS) suggested the export gains may be overstated by 9%. Louis Kuijs, RBS chief China economist based in Hong Kong, commented: 'Actually, China's exports haven't done all that well. The trade data reflects a pretty weak global picture, weak demand for Chinese exports and the impact of speculative money inflows on yuan appreciation affecting China's shipments.'



- Front Page Headline, Financial Times – **"University Endowments Trim Holdings in U.S. Treasurys.** Many university endowments, such as Princeton, Duke, Cornell and Yale have reduced their holdings of U.S. Treasury securities from as much as 30% of their portfolios in 2008-2009 to zero in some cases. The strategy reflects a big change in the way some portfolio managers view U.S. government debt. The traditional attraction of U.S. Treasuries for fund managers was that they were certain to be repaid at maturity. However, with bond yields now at such low levels, investment managers worry that their potential capital gains may be forfeited if bond prices declined dramatically, without any warning. The fear on campuses is that universities could be caught flat-footed by a sudden reversal in the Federal Reserve's monetary policy. One university fund manager volunteered: 'If you think that you can change allocations quarter by quarter and you believe interest rates will be low for a longer period, then maybe it is O.K. However, that isn't the way we invest. Today, we are very sensitive to the potential interest rate risk and have acted preemptively." **At Longwave Analytics, we would advise university portfolio managers to be, not only sensitive to potential interest rate risk, but also, aware of the inexorable climb of the U.S. national debt level and its attendant sovereign debt credit rating implications. Indeed, the statutory debt limit of the American government was suspended in January at $16.4 trillion (U.S.) with plans to reinstate it on May 18th. How analogous it is for the American debt ceiling to potentially explode through the $18 trillion (U.S.) mark on the 33rd. anniversary of the eruption of Mount St. Helen's in Washington State!**

Thursday, May 9th

- The Labor Department reports U.S. initial claims for state unemployment benefits declined by 4,000 to a seasonally adjusted 323,000 in the week ended May 4th. while continuing claims fell by 27,000 to 3.01 million in the week ended April 27th. The number of people who have exhausted their traditional benefits and are now receiving emergency or extended benefits from state or federal plans declined by 14,500 to 1.76 million in the week ended April 20th.

- Front Page Headline, Globe and Mail – **"Canadian Economist Takes His Anti-Oil Sands Message to Europe.** Simon Fraser University environmental economist Mark Jaccard has worked with governments in British Columbia, California and Ottawa to fashion climate policies. Today, however, he stated: 'The Canadian Federal Government and the oil industry are embarked on a high-risk path which could leave billions of dollars in stranded assets, including pipelines like TransCanada's proposed Keystone XL. Governments around the world will eventually move to reduce emissions from fossil fuels, meaning reduced demand for gasoline for transportation and lower prices for crude oil; as well as more pressure for producers to virtually eliminate the release of carbon dioxide from their production methods. That will create survival issues for high-cost producers like those in the oil sands. It really depends on your ability to innovate."

SFU economist Mark Jaccard Source: Globe and Mail

- Front Page Headline, Financial Post – **"Canadian Loonie Set to Fly South: TD Economics.** In a new report, analysts at TD Economics forecast: 'If you look at the fundamental factors driving the Canadian dollar, we think the outlook is all down. We are forecasting that the Canadian currency will decline to 90 cents (U.S.) over the next 12 months, citing the recent trends of a decline in Canada's gross domestic product (GDP), a softening of commodity prices and a stronger American economy.'

- Front Page Headline, Financial Post – **"Bears Ganging up on the Loonie Are Wrong: Rosenberg.** In his daily economic report, Breakfast With Dave, Gluskin Sheff Chief Economist and Strategist David Rosenberg asserts: 'My, My, but it has become so fashionable now to be bearish on Canada. It is all rather surreal. Bloomberg News recently published a story headlined: Carney Sentiment Revealed in Loonie Sentiment Reversal and another major newspaper blared: U.S. Analysts Becoming Increasingly Skeptical about Canadian Economy. Never mind, there are signs the correction in the Canadian housing market is approaching its mature stage, with builders moving aggressively to bring production into line with household formation rates. Moreover, as good as the U.S. non-farm payrolls were last Friday, Canada performed even better on a proportional basis. Canadian employment increased by 50,700 which was well above the average forecast and more than offset January's 21,900 decline. Canada's unemployment rate held steady at 7% and in contrast to the U.S., more Canadians participated in the labour force, with the participation rate rising slightly to 66.7%. Moreover, Canadian full- time jobs surged by 33,600 – the most in three months – while 17,200 part-time jobs were also created during April, the most since last August. Both the unemployment and inflation rates are lower in Canada than in the U.S., which attests to the view that supply-side economic fundamentals in Canada are beginning to outshine what we are witnessing stateside ... Assuredly, the loonie needs a catalyst and it could well be the approval of the Keystone XL pipeline. In this sense, it was highly encouraging to see Barron's cite sources over the weekend suggesting that this has a better than 50-50 chance of occurring by late summer. The impact on redressing the Canadian crude oil price discount and Canada's balance of payments would be enormous, considering the energy trade surplus has been sliced by nearly 12% in just the past 12 months. Our measure of fair value on the loonie is 97-98 cents (U.S.), where the Canadian dollar is right now. Overshoots in upside (trading) spasms and undershoots in corrective (trading) phases tend to occur, but the undershoots (during) this cycle have been short in nature. They have also tended to become windows of opportunity for those U.S.-based investors with long time horizons who are patiently building positions in a currency backed by hard reserves in the ground, a central bank with a price stability goal, a 'AAA' national balance sheet (even with provinces included, the debt to GDP ratio in Canada is far below comparable U.S. and OECD levels: Canada currently at 79%, the U.S. at 108% and the OECD average at 109%) and a Canadian government that is being led by pro-business conservatives. Remember that last June the loonie dropped below fair value (96 cents U.S. at the time) and was left for dead (as is also now the case) but it resulted in the best buying opportunity of the year. One thing seems certain: Sentiment on the Canadian dollar has become so depressed that it would probably not take much in the way of any good news to spark a turnaround. The speculators in the Chicago Mercantile Exchange (CME) have swung from a total net long position at the end of 2012 – in both the futures and options markets – of 63,166 contracts to a net short position of 44,205 contracts. Firstly, this is the most violent 10-week move ever from bullish to bearish positioning. Secondly, we have not seen such a large net short position by non-commercial accounts in six years and this is actually double what we saw in the darkest days for the loonie back in the depths of the Great Recession in early 2009. Some back-of the- envelope work would discern this level of net shorts suggests the market is now pricing a move down toward the 85 cent (U.S.) level. In other words, a lot of bad news is being priced in right now, and it may be time to contemplate what could happen if the bad news proves overdone and these flows on the CME swing the other way again. The last time that the market was this negatively positioned, the loonie enjoyed a 10% appreciation in the ensuing three months."

Friday, May 10th

- Front Page Headline, Daily Telegraph U.K. – **"Spain Is Officially Insolvent: Withdraw Your Money While Still Able.** In his recent economics blog, Assistant Editor Jeremy Warner concludes: 'The latest issue of the IMF Fiscal Monitor comes about as close to declaring Spain insolvent as you are ever likely to see in official analysis of this sort. Of course, it doesn't exactly say this outright. The IMF is far too diplomatic for such language. However, that's the plain meaning of its latest forecasts, which at last have an air of realism about them, rather than being the usual dose of wishful thinking. Firstly, let's examine the projected budget deficit. This is expected to decline quite steeply this year to 6.6% of GDP, but that's mainly because the cost of bailing out the banking sector fell substantially on last year's budget. On a comparative basis, there has neither been very little decline in the underlying deficit, nor is there ever likely to be; because that's where the deficit is projected to remain until the end of the IMF's forecasting horizon in 2018. Next year, Spain's deficit is expected to be 6.9% of GDP, in 2015 about 6.6% and so on; with very little progress thereafter. Indeed, all these projection are made on the basis of everything we know about policy to date, so they take account of the latest austerity package announced by the Spanish Government. The situation looks even worse on a seasonally adjusted basis. What is sometimes termed the 'structural deficit', or the portion of government borrowing which doesn't disappear even after the economy returns to a growth mode and actually deteriorates from an expected 4.2% of GDP this year to 5.7% in 2018. By that time, Spain – by far and away – the worst structural deficit of any advanced economy, including other such well known fiscal basket cases as the United Kingdom and the United States. So, what happens when a country continues borrowing at that sort of pace year after year? Its overall indebtedness soars, of course, and that's what is going to occur in Spain; where general government gross debt is forecast to increase from 84.1% of GDP in 2012 to 110.6% in 2018. No other advanced country has such a dramatically worsening economic outlook. The tragedy of it all is that Spain is actually making relatively good progress in addressing its 'primary balance', that's the deficit before debt servicing costs. What's projected to occur in Spain is essentially what happens in all bankruptcies. Eventually, one must borrow more just to pay the interest on one's outstanding debt. The fiscal compact requires euro zone countries to reduce their deficits to 3% by the end of this year, although Spain among others was recently granted an extension. However, on these numbers, there is no chance of ever achieving this target without further austerity measures; which even if they were attempted would very likely be self-defeating. In any case, it seems doubtful that any economy, where unemployment is already above 25%, could handle any more austerity. In the past, the IMF has been far too optimistic about Spain, both on the outlook for GDP growth and its public finances ... It would appear that Spain is chasing its tail down the road to deflationary oblivion. All this leads to the conclusion that a big Spanish debt restructuring is inevitable. Spanish sovereign bond yields have declined sharply since the announcement of the European Central Bank's 'outright monetary transactions program.' The ECB has promised to print money without a limit, to counter the speculators. In the end, however, no amount of liquidity can mask an underlying problem with solvency. Europe has proclaimed that Greece was the first and last such restructuring, but then there was Cyprus. Spain is delaying further recapitalization of its banks in anticipation of the arrival of Europe's banking union, which it hopes will do the job instead. However, if the Cypriot precedent is any kind of indicator, a heavy price will demanded by way of recompense. Bank creditors will widely be bailed in. Confiscation of deposits looks all too possible. I do not advise extraction one's money from Spain lightly. Indeed, such advice is generally thought grossly irresponsible, for it risks inducing a self-reinforcing panic. Yet, looking at the IMF projections, it's the only rational thing to do."

- Front Page Headline, Washington Post – **"USPS Records $1.9 billion (U.S.) Loss in 2nd. Fiscal Quarter.** The report follows a $1.3 billion (U.S.) loss registered by the United States Postal Service in the October-December quarter and prompted officials to urge Congress to enact changes the USPS has proposed: including switching to 5-day delivery of mail while continuing 6-day delivery of parcels and initiatives to save money on employee health insurance costs and retirement benefits. In a conference call with reporters, Postmaster General and CEO Patrick Donohoe commented: 'While we are seeing results from our cost-saving efforts ... we need action on the legislation.' The 6-day mail delivery issue has proven to be a major obstacle. Last year, the U.S. Senate approved legislation which would have delayed 5-day mail delivery for two years, while implementing other cost saving tactics. A House of Representatives bill which would have curtailed Saturday mail delivery immediately, never reached a floor vote."

CLOSING LEVELS FOR FRIDAY, May 10th		WEEKLY CHANGE
Dow Jones Industrial Average	15,118.49	+ 144.53 points
Spot Gold Bullion (June)	$1,436.60 (U.S.)	– $27.60 per oz.
S&P / TSX Composite	12,589.09	+ 151.06 points
10 - Year U.S. Treasury Yield	1.90%	+ 16 basis points
Canadian Dollar	98.89 (U.S.)	– 0.34 cent
U.S. Dollar Index Future (Spot Price)	83.097	+ 0.998 cent
WTI Crude Oil (June)	$96.04 (U.S.)	+ $0.43 per barrel

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