

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



Monday, April 21st

The New York-based Conference Board reports its index of U.S. leading economic indicators – a gauge of the economic outlook for the next three to six months – rose by 0.8% in March, following a gain of

MONDAY, APRIL 21ST

0.5% in February. In a press release, Ken Goldstein, an economist at the Conference Board, stated: “As the U.S. economy is rebounding from widespread inclement winter weather, the strengthening in the labor market is beginning to have a positive impact on GDP growth. Overall, this is an optimistic report, but the focus will continue to be on whether improvements in the labor market can be sustained, fueling a stronger economy over the next few months.”

- Following a recent joint analysis of 47 Russian companies by Moody’s Investors Service and Fitch Ratings, the agencies reported: “Russian corporations – facing \$115 billion (U.S.) of debt due over the next 12 months – will have the funds even as bond market access closes due to the Ukraine crisis. Firms will have about \$100 billion (U.S.) in cash, earnings and lines of credit at their disposal during the next 18 months.” In addition, ZAO Raiffeisenbank noted: “Banks have more than \$20 billion (U.S.) in foreign currency, as the Ukrainian tensions prompted customers to convert their dollar savings.”
- The Ministry of Finance reports Japan’s exports rose by only 1.8% in March on a year-over-year basis, while imports soared by 18.1% over the same period, widening the trade deficit to a record level for the month. Junko Nishioka, chief Japan economist at the Royal Bank of Scotland group in Tokyo, commented: “In spite of the continuing weaker yen, the performance of Japanese exporters is quite poor when compared to competitors like South Korea and Taiwan. The trade balance will likely deteriorate

further unless the government decides to restart nuclear power plants.” Hiroaki Muto, an economist at Sumitomo Mitsui Asset Management in Tokyo, noted: “The consumer demand rush ahead of the April 1st. sales tax increase could have prompted companies to divert shipments to the domestic market, rather than markets abroad, thereby crimping export growth.”



Nissan vehicles await shipment from Hitachi City.

Source: Bloomberg

- Front Page Headline, Bloomberg News – “Keystone XL Pipeline Fate Now in the Hands of Nebraska Jurists. The focus of the Keystone XL Pipeline debate has shifted from a fierce lobbying war in Washington to Lincoln, Nebraska, where the state Supreme Court has been asked to rule on a legal challenge to the pipeline. The U.S. State Department, which is responsible for reviewing whether the project is in the nation’s interest, stated last week that it would delay making a recommendation until legal questions regarding how the pipeline route was approved through Nebraska were resolved. In all likelihood, this could

spare U.S. President Obama from having to decide on the project – which has split his supporters in the environmental and labour movements – prior to the mid-term congressional elections in November.”



A Trans Canada Corp. storage tank in Hardisty, Alberta. Source: Bloomberg

- Front Page Headline, Business Insider – “Russia’s Share of World Commodity Output. Since the international community is considering more sanctions on Russia, investors are monitoring the geopolitical tension between Russia and Ukraine closely. The reason is because Russia is a major commodities producer in terms of energy, metals and mining and agriculture, so investors are worried about the impact this could have on the prices of various commodities. For example, Russia produces 13% of global oil output and 14% of global natural gas output. Max Layton, a commodities economist at Goldman Sachs observes: ‘The importance of Russian energy flows, not only domestically (via state revenues), but also, to the United States and Europe (via potential impacts on GDP growth and inflation) suggest energy-related sanctions are unlikely. Moreover, sanctions on certain metal like platinum, palladium and nickel are also unlikely because these metals may be difficult to replace in the European and American markets, given their large shares of global output.’”

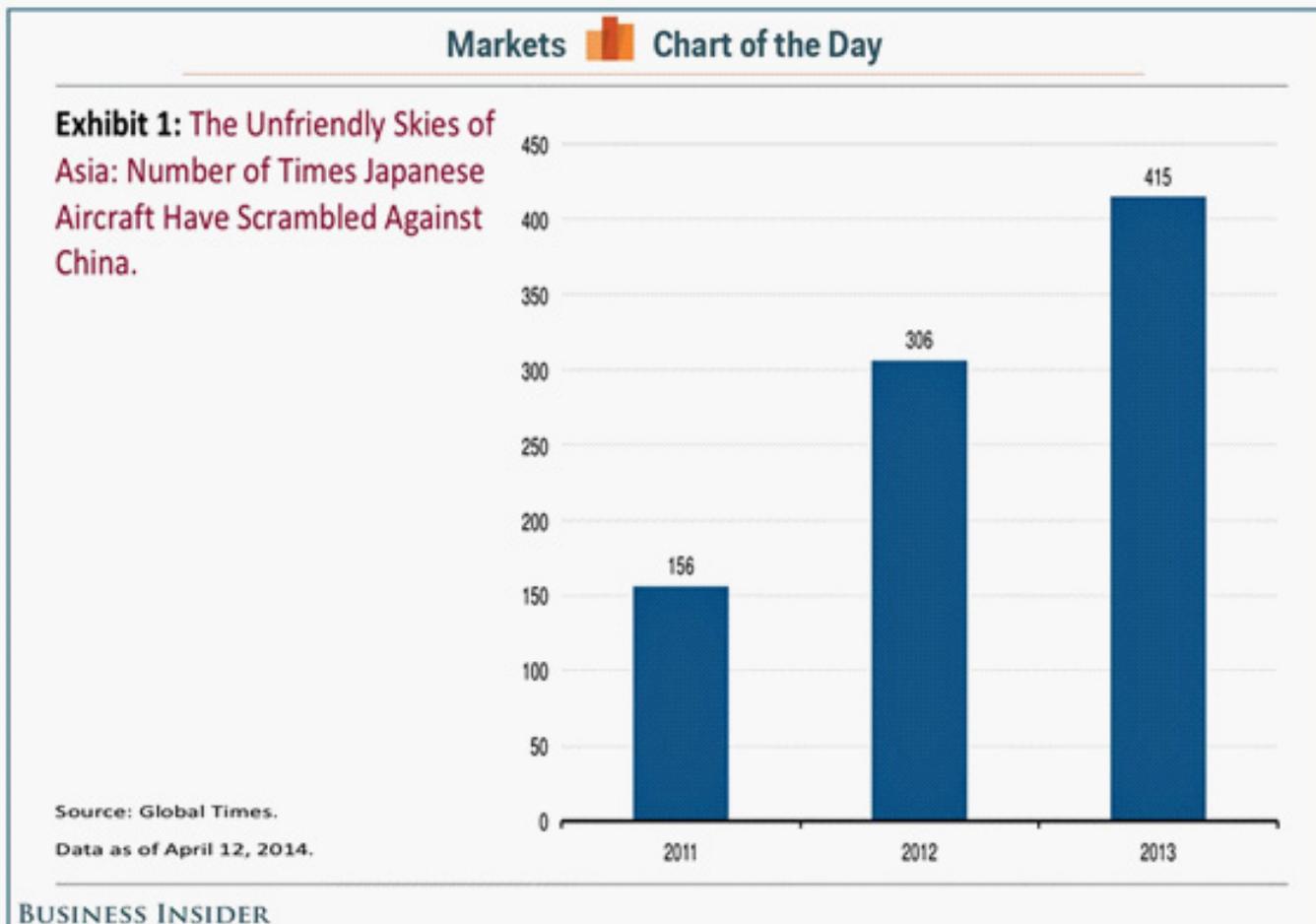
TUESDAY, APRIL 22ND



- Front Page Headline, Business Insider – “The Dangerous Game of Military Chicken between China and Japan. Tensions continue to run high between China and Japan, the world’s second and third largest economies, respectively. Recent rows between the two nations have largely been focused on an ownership dispute regarding a string of islands in the East China Sea. U.S. Trust’s Joseph Quinlan observed: ‘The islands – called Senkaku in Japan and Diaoyu in China – while largely uninhabited, could yield significant oil and gas deposits for the rightful owner; hence the heated competition to lay claim to this part of the East China Sea. In September 2012, Japan purchased three of the islands from a private Japanese businessman, a transaction vehemently opposed by China. About a year later, China unilaterally declared an East Asian Air Defense Identification Zone over the islands, which effectively requires all aircraft flying over the region to follow the instructions issued by Chinese authorities. Unsurprisingly, Japan condemned the move as an infringement upon Japanese sovereignty, thereby escalating tensions between the two parties. While no one is predicting an armed conflict between China and Japan, the rising level of ill will between the two parties hardly engenders investor confidence in an area built

on peaceful regional and unfettered trade and investment flows. At present, I am characterizing all of this as a dangerous game of military chicken.’ Quinlan provided the chart below, which shows the increasing number of instances where Japan scrambled aircraft in response to Chinese aircraft flying too close to the islands, which raises the odds of an accidental clash.”

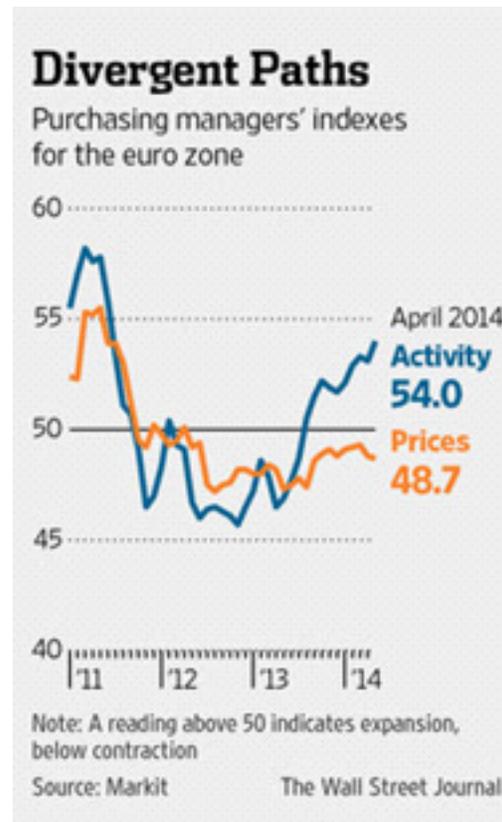
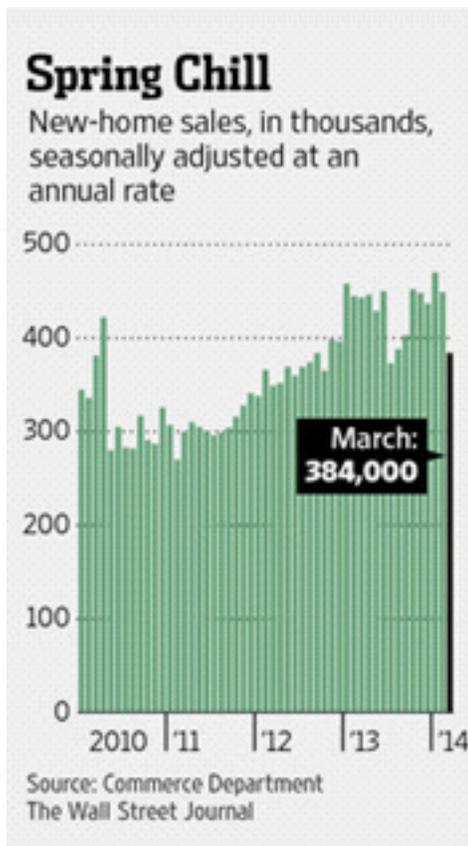
- The Federal Housing Finance Agency (FHFA) reports U.S. house prices rose by a seasonally adjusted 0.6% in February and by 6.9% on a year-over-year basis, the lowest annual increase in the past 12 months. Separately, the Washington-based National Association of Realtors (NAR) reports U.S. existing home sales declined by 0.2% to an annual pace of 4.59 million units in March, citing various adverse weather conditions and a low supply of listings on the market.
- Statistics Canada reports the nation’s wholesale trade rose by 1.1% in February, following a gain of 0.5% in January, citing higher sales in all subsectors, led by motor vehicles and parts and across eight provinces.



WEDNESDAY, APRIL 23RD

- HSBC Holdings Plc and Markit Economics report their preliminary Purchasing Managers' Index (PMI) for China's manufacturing sector for April rose slightly to a reading of 48.3 from a final level of 48 in March, remaining below the expansion / contraction dividing line of 50. Qu Hongbin, an economist at HSBC in Hong Kong noted: "China's domestic demand showed mild improvement and deflationary pressures eased, however, downside risks to GDP growth are still evident as both new export orders and employment contracted. More Government measures may be unveiled in the coming months to support GDP growth."
- The Commerce Department reports U.S. new home sales declined by 14.5% to an annualized pace of 384,000 units in March, the weakest level since July 2013. Darren Blomquist, a vice-president at property data firm Realty Trac Inc. in Irvine, California, noted: "An increase in mortgage rates combined with rising home prices has quickly and surprisingly made a lot of markets unaffordable for potential home buyers."

- Markit Economics reports its composite purchasing managers' index (PMI) for the euro zone – a survey of 5,000 manufacturing and services businesses – rose to a reading of 54 in April from a level of 53.1 in March. Markit's Chief Economist Chris Williamson warned: "There will be growing fears that deflationary pressures are intensifying and that the European Central Bank (ECB) needs to respond with more than just rhetoric to the recent appreciation of the euro exchange rate."



THURSDAY, APRIL 24TH

- The Munich-based Ifo Institute, Center for Economic Studies, reports its business climate index – based upon a survey of 7,000 executives – rose to a reading of 111.2 in April from a level of 110.7 in March. Alexander Koch, an economist at Raiffeisen Schweiz in Zurich, commented: "The outlook for the German economy remains bright on a broad basis and we don't see movements which could immediately reverse that sentiment. However, there are risks correlated with rising trade uncertainty with Russia because of the Ukraine crisis and partly due to slower dynamics in emerging markets."

- The Labor Department reports U.S. initial claims for state unemployment benefits increased by 24,000 to 328,000 in the week ended April 19th. while continuing claims declined by 61,000 to 2.68 million in the week ended April 12th., the lowest since December 2007.
- Front Page Headline, Bloomberg News – “Putin Warns of Consequences as Ukraine Maintains Offensive against Separatists. Russian President Vladimir Putin has warned Ukraine against continuing its anti-separatist offensive after Ukrainian troops killed five rebels and prompted Russia’s military to commence new drills on the Ukrainian / Russian border. Speaking in St. Petersburg, President Putin warned: ‘If it’s true that the current regime in Kiev sent its army against citizens inside its country, then it is a very serious crime against its own nation. It will have consequences for the people who make such decisions, including relations between our countries. We’ll see how the situation develops and we’ll make conclusions based on the reality on the ground.’ On its website, the Ukrainian Interior Ministry reported: ‘Ukrainian army troops have destroyed three roadblocks as they fought pro-Russian separatists in the Donetsk regional city of Sloviansk.’ Apparently, it was O.K. for Moscow to send Russian troops into battle in Grozny against armed Chechen rebels a few years ago; but it is not O.K. for Kiev to send Ukrainian troops into battle against armed Russian rebels in Slavyansk. The Vladimir Putin double standard strikes again!



Ukrainian Special Forces take position in Slavyansk.
Source: Getty Images

- The Commerce Department reports U.S. durable goods – products expected to last for at least three years – orders rose by 2.5% in March, following a 2.1% gain in February. TD Securities Analyst Millan Mulraine commented: ‘Beyond the strong showing of the headline number, the composite sectors of the durable goods report were quite encouraging.’ See chart on the following page.

- In a Saskatoon luncheon speech to the Saskatchewan Trade and Export Partnership, Bank of Canada Governor Stephen Poloz stated that when the Canadian economy has achieved higher, more sustainable gross domestic product (GDP) growth, the prevailing level of interest rates will still be lower than what investors and consumers have been accustomed to in the past. Mr. Poloz elaborated: “Both because of our shifting demographics, and after such a long period at unusually low levels, interest rates (the Bank Rate, mortgage rates, bond yields) won’t need to move much higher to have the same impact on the economy ... With Canada’s stronger terms of trade, our healthier business environment and our ability to innovate, the future of Canada’s manufacturing sector is bright.”

FRIDAY, APRIL 25TH

- Front Page Headline, Bloomberg News – “S&P Downgrades Russia’s Credit Rating. Standard and Poor’s downgrades Russia’s sovereign credit rating from ‘BBB’ to ‘BBB’ (Low) – on a par with Brazil and Azerbaijan – with a negative outlook, citing: ‘The tense geopolitical situation between Russia and Ukraine could see additional significant outflows of both foreign and domestic capital from the Russian economy and hence further undermine already weakening GDP growth prospects.’”
 - The University of Michigan reports its consumer confidence index their consumer confidence index rose to reading of 84.1 in April from a level of 80.0 in March, the highest reading since July 2013. Survey director Richard Curtin observed: “While near term conditions have improved substantially, longer term expectations for personal finances as well as the overall economy, have not improved as much.” See the first chart on page 7.
 - Front Page Headline, Business Insider – “Sell In May and Go Away!” This phrase represents one of the oldest sayings by Wall Street traders. Analyst J.C. O’Hara at FBN Securities compiled the statistics for the past 20 years and charted the returns. See the second chart on page 7.
- Mr. O’Hara noted: “For the majority of the time over those summer months, the market’s performance was rather unimpressive. The majority of the market’s returns were housed in the first model which was long during the months leading into May and during the months after September. As we approach May, while we are not yet in the SELL camp, we acknowledge the fact that a volatile, sideways-moving stock market is what history implies.”

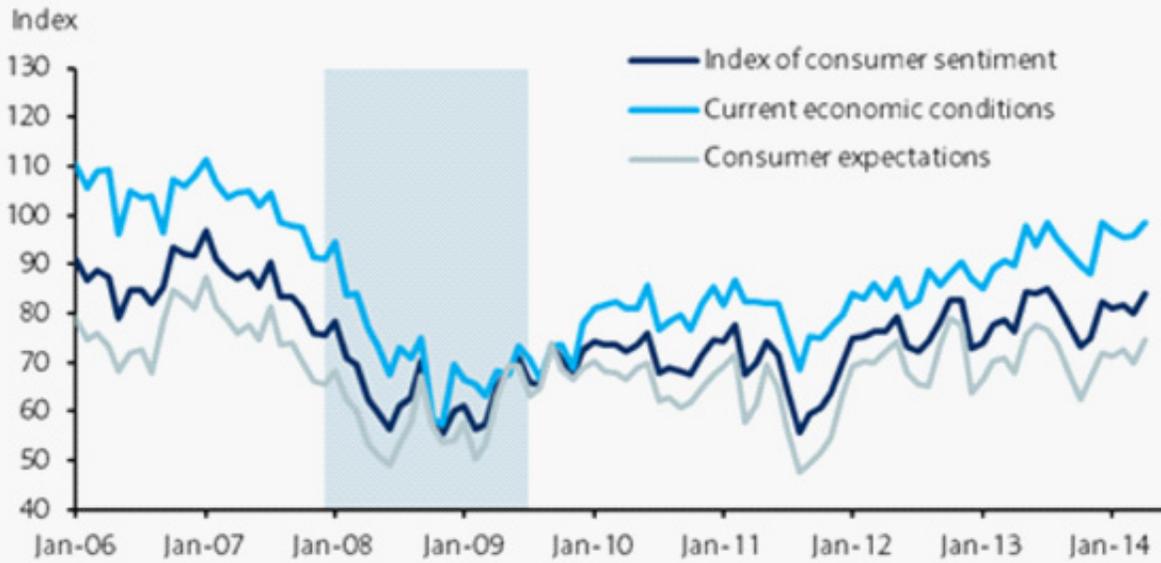
Table 1. Durable Goods Manufacturers' Shipments and New Orders ¹

[Estimates are shown in millions of dollars and are based on data from the Manufacturers' Shipments, Inventories, and Orders Survey.]

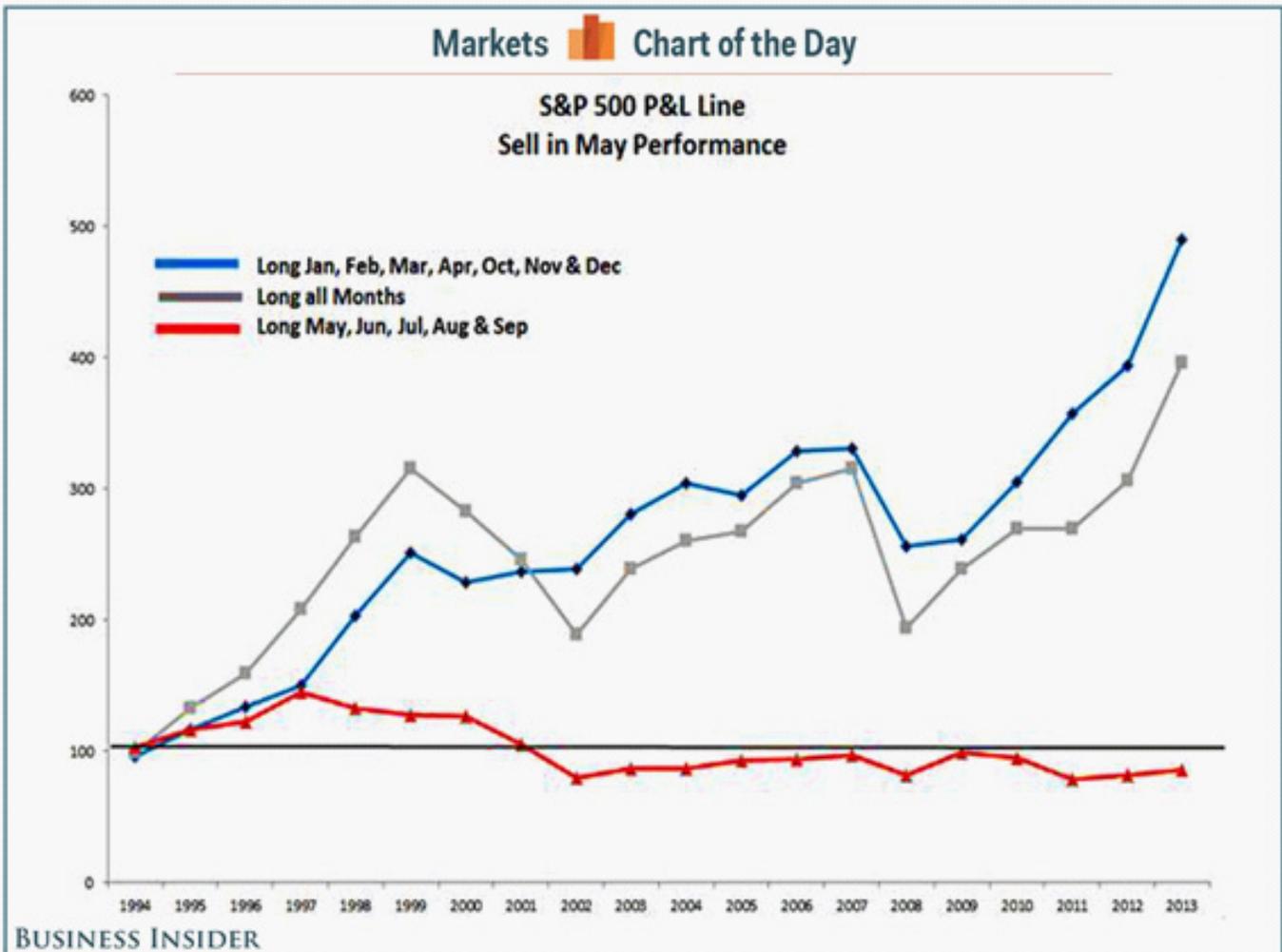
Item	Seasonally Adjusted						Not Seasonally Adjusted					
	Monthly			Percent Change			Monthly			Year to Date		Percent Change 2014/2013
	Mar 2014 ²	Feb 2014 ¹	Jan 2014	Feb - Mar ²	Jan - Feb ¹	Dec - Jan	Mar 2014 ²	Feb 2014 ¹	Mar 2013	2014	2013	
DURABLE GOODS												
Total:												
Shipments.....	236,576	234,075	231,869	1.1	1.0	-0.6	251,890	218,629	242,586	681,385	658,912	3.4
New Orders ³	234,839	228,880	224,227	2.6	2.1	-1.4	252,184	223,535	231,803	682,160	658,472	3.6
Excluding transportation:												
Shipments.....	166,544	165,076	164,141	0.9	0.6	-0.7	175,132	152,212	168,055	479,298	464,629	3.2
New Orders ⁴	160,780	157,637	157,441	2.0	0.1	0.9	172,741	152,778	164,375	474,677	463,831	2.3
Excluding defense:												
Shipments.....	224,564	222,430	219,977	1.0	1.1	-0.7	238,247	207,566	228,402	647,048	623,849	3.7
New Orders ⁴	223,208	219,194	215,389	1.8	1.8	-2.0	237,881	213,224	221,198	650,488	627,505	3.7
Manufacturing with unfilled orders:												
Shipments.....	165,607	163,535	162,591	1.3	0.6	0.0	178,389	153,281	172,011	478,171	463,316	3.2
New Orders.....	171,741	166,045	162,671	3.4	2.1	-1.0	185,460	164,244	167,322	500,994	482,210	3.9
Primary metals:												
Shipments.....	25,873	25,722	25,877	0.6	-0.6	-1.0	27,104	25,036	25,898	78,039	75,360	3.6
New Orders.....	26,346	25,837	25,521	2.0	1.2	-1.8	27,615	25,721	25,985	80,314	77,784	3.3
Fabricated metal products:												
Shipments.....	29,404	29,311	28,921	0.3	1.3	0.6	29,998	27,250	28,976	84,335	82,978	1.6
New Orders.....	28,831	28,206	28,411	2.2	-0.7	8.2	31,396	29,081	32,669	87,466	93,002	-6.0
Machinery:												
Shipments.....	35,628	35,157	34,501	1.3	1.9	-3.1	39,208	32,902	37,737	102,692	100,328	2.4
New Orders.....	36,259	36,061	36,377	0.5	-0.9	-1.3	39,418	35,151	36,501	109,447	103,769	5.5
Computers and electronic products⁴:												
Shipments.....	28,981	28,532	28,731	1.6	-0.7	-0.2	31,062	24,665	29,775	82,483	78,966	4.5
New Orders.....	22,433	21,223	20,911	5.7	1.5	3.1	26,079	19,878	23,357	63,875	60,972	4.8
Computers and related products:												
Shipments.....	2,223	2,213	2,421	0.5	-8.9	-0.2	2,988	1,506	3,251	6,196	6,410	-3.3
New Orders.....	2,247	2,208	2,241	1.8	-1.5	-8.4	3,012	1,501	3,223	6,029	6,615	-8.9
Communications equipment:												
Shipments.....	3,820	3,736	4,001	2.2	-6.7	5.7	4,420	3,237	4,560	10,917	11,191	-2.4
New Orders.....	4,642	4,301	4,321	7.9	-0.4	-1.2	5,304	4,213	4,659	13,129	12,341	6.4
Electrical equipment, appliances, and components:												
Shipments.....	10,255	10,153	10,181	1.0	-0.3	0.1	10,911	9,339	10,889	29,412	29,771	-1.2
New Orders.....	10,555	10,201	10,311	3.5	-1.1	-4.0	11,150	9,764	10,879	30,868	30,693	0.6
Transportation equipment:												
Shipments.....	70,032	68,999	67,711	1.5	1.9	-0.4	76,758	66,417	74,531	202,087	194,283	4.0
New Orders.....	74,059	71,243	66,781	4.0	6.7	-6.2	79,443	70,757	67,428	207,483	194,641	6.6
Motor vehicles and parts:												
Shipments.....	46,161	45,998	43,951	0.4	4.6	-1.9	48,987	45,673	47,012	135,354	130,145	4.0
New Orders.....	46,083	45,878	44,001	0.4	4.3	-2.0	48,711	45,958	46,796	135,588	130,582	3.8
Nondefense aircraft and parts:												
Shipments.....	11,995	11,381	12,011	5.4	-5.2	3.5	14,065	9,973	13,170	32,967	29,334	12.4
New Orders.....	16,159	14,884	13,221	8.6	12.5	-22.1	16,850	14,616	10,648	40,154	35,820	12.1
Defense aircraft and parts:												
Shipments.....	4,732	4,373	4,621	8.2	-5.4	11.4	5,656	3,911	6,016	13,176	13,642	-3.4
New Orders.....	4,153	4,411	3,761	-5.8	17.1	17.2	4,757	4,303	3,614	12,171	9,860	23.4
All other durable goods:												
Shipments.....	36,403	36,201	35,921	0.6	0.8	0.1	36,849	33,020	34,780	102,337	97,226	5.3
New Orders.....	36,356	36,109	35,891	0.7	0.6	-0.2	37,083	33,183	34,984	102,707	97,611	5.2
Capital goods²:												
Shipments.....	85,819	84,361	84,311	1.7	0.1	-1.8	95,625	77,805	93,016	245,513	238,927	2.8
New Orders.....	89,833	82,813	84,331	8.5	-1.8	-3.7	100,548	81,720	89,489	256,247	253,167	1.2
Nondefense capital goods:												
Shipments.....	76,167	74,885	74,691	1.7	0.2	-1.7	84,772	68,569	81,642	217,572	210,372	3.4
New Orders.....	80,525	75,160	77,311	7.1	-2.8	-5.3	88,722	73,195	80,574	230,339	228,061	1.0
Excluding aircraft:												
Shipments.....	67,624	66,952	66,511	1.0	0.7	-1.5	74,761	61,773	72,536	195,444	191,368	2.1
New Orders.....	69,063	67,544	68,291	2.2	-1.1	0.8	77,268	66,047	73,919	207,205	203,309	1.9
Defense capital goods:												
Shipments.....	9,652	9,476	9,611	1.9	-1.4	-2.7	10,853	9,236	11,374	27,941	28,555	-2.2
New Orders.....	9,308	7,653	7,011	21.6	9.0	17.7	11,826	8,525	8,915	25,908	25,106	3.2

Source: U.S. Census Bureau

Figure 1: Current conditions have continued to improve



Source: University of Michigan, Haver Analytics



- Front Page Headline, Mish's Global Economic Trend Analysis – "French Telecom Company Issues Record Amount of Junk Bonds. Numericable, a subsidiary of Altice – a multinational telecom group – reports it issued a record amount of high-yield bonds this week comprised of \$7.78 billion (U.S.) and 2.25 billion euros of notes which yield 5% or more. The parent company Altice issued \$2.9 billion (U.S.) and 2.1 billion euros in bonds which yield more than 7%. The grand total amounted to an astounding \$16.69 billion (U.S.), which according to Dealogic, represents the largest sale of high yield debt on record.
- Front Page Headline, Mineweb – "Curtain Finally Closes on Bre-X Gold Fraud Case after 17 Years. The greatest fraud in Canadian gold mining history finally came to an end Wednesday when an Ontario judge dismissed the last of the investor lawsuits against Bre-X Minerals. Investors lost \$1 billion (U.S.) in the greatest stock fraud in Canadian history after the late geologist Michael de Guzman declared in 1993 that he had discovered gold in the jungles of Borneo, Indonesia. The late David Walsh had founded Bre-X in 1989 and bought a property in Borneo. The market value of Bre-X Minerals shares would eventually soar from zero to \$4 billion (U.S.). However, investors would ultimately lose \$1 billion (U.S.) in Bre-X, despite the

company's announcement that it had discovered as much as 70 million ounces of gold.

At its peak, speculation over the discovery sent Brex's valuation soaring to \$4.4 billion (U.S.). A number of major mining companies, including Barrick Gold and Placer Dome attempted to get a piece of the Bre-X action. However, Freeport-McMoRan's long association with Indonesian President Suharto resulted in a deal between FCX, the Indonesian government and Bre-X for the concession in February 1997. During the next month of March, however, Michael de Guzman fell to his death from a helicopter in the Indonesian jungle. At the end of that month, Freeport reported that its due diligence had determined only insignificant amounts of gold existed at the site. By May, Strathcona Minerals determined the Busang ore samples had been salted with gold dust.

Bre-X then faced a number of lawsuits and the company was suspended from the NASDAQ and TSX stock exchanges. CEO Walsh moved to the Bahamas, but died from a brain aneurysm in 1998. BRE-X Vice President of Exploration John Felderhof, moved to the Cayman Islands. Bre-X would eventually declare bankruptcy in 2002.

CLOSING LEVELS FOR FRIDAY APRIL 25TH.

		WEEKLY CHANGE
Dow Jones Industrial Average	16,361.46	– 47.08 points
Spot Gold Bullion	\$1,300.80 (U.S.)	+ \$6.90 per oz.
S&P / TSX Composite	14,533.57	+ 33.18 points
10-Year U.S. Treasury Yield	2.66%	– 6 basis points
Canadian Dollar	90.61 cents (U.S.)	– 0.12 cent
U.S. Dollar Index Future	79.766	– 0.100 cent
WTI Crude Oil Futures	\$100.60 (U.S.)	– \$3.70 per barrel

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