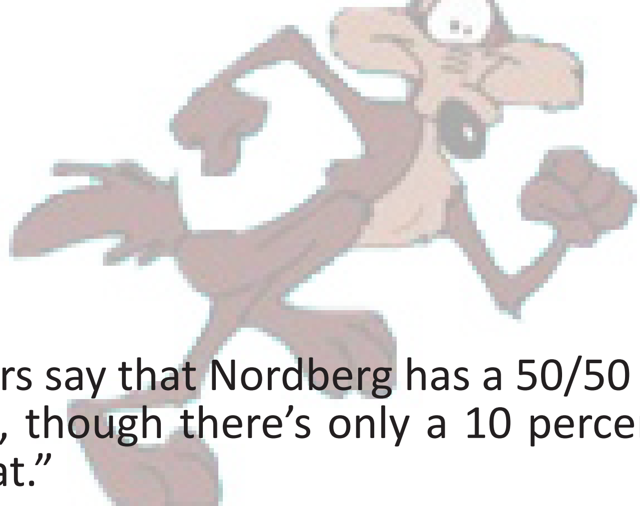
THINGS THAT MAKE YOU GO
Hmmm...
A walk around the fringes of finance

"You've got to jump off cliffs and build your wings on the way down"

– RAY BRADBURY

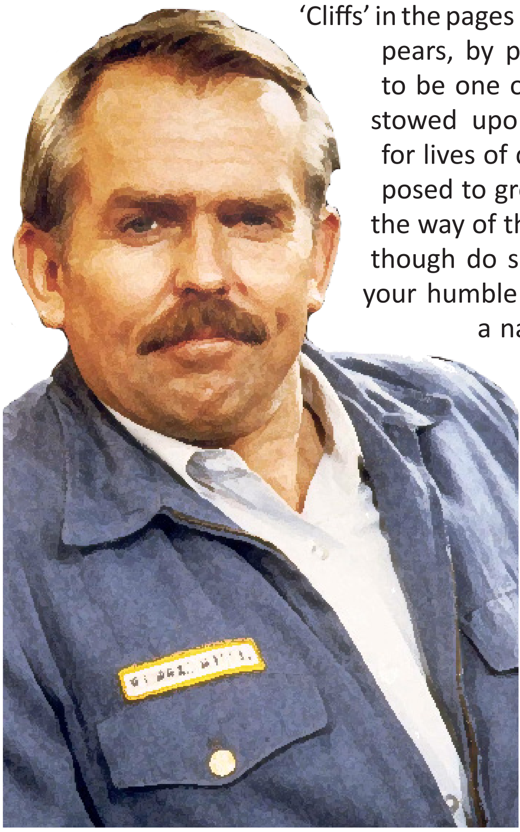
"Well, it's true: "inevitable" is not the same thing as "imminent." When people see that something is inevitable — and I'm guilty of this mistake myself — they tend to believe those things are also imminent, even when that's not so. But the inevitable is inevitable, and that means it *must* happen. We usually can't predict exactly when — and such things often take far longer to arrive than we imagine they possibly can — but once things start to unravel, they tend to accelerate quickly."

– Doug Casey



"Doctors say that Nordberg has a 50/50 chance of living, though there's only a 10 percent chance of that."

– 'Ed' (George Kennedy), *The Naked Gun*



For whatever reason, there are not very many famous 'Cliffs' in the pages of history. It just appears, by pure happenstance, to be one of those names bestowed upon people destined for lives of quiet dignity as opposed to great fanfare. Such is the way of the world I suppose, though do spare a thought for your humble scribe who shares a name with the actor and operatic tenor who 'famously' played Scott Carey, the hero of the 'seminal science fiction film' "The Incredible Shrinking Man" - trust me, not a claim-to-fame one advertises readily. There was a mild improvement in my fortunes in 1974 when a boy was born who would also share my nomenclative misfortune but eventually grow up to become a marginally successful New England Patriots offensive linebacker. Sadly though, his distinction according to Wikipedia is that he is "...not to be mixed up with Brock Williams, the player who pawned his super bowl ring for $2000".

Just my luck. Caught between a jock and a star face.

Anyway, amongst famous Cliffs, there are none more worthy of being the focus of an edition of Things That Make You go Hmmm..... than the great man who often occupied the seat at the end of the bar alongside Norm Peterson in *Cheers* - Cliff Clavin.

Clavin's wisdom would regularly make those around him go "Hmmm...." as he laid out his views on a variety of topics ranging from genetic engineering...:

> *You see, the roots of physical aggression in the male of the species is found right here, in the old DNA molecule itself. Right up here at about one o' clock as I recall.*
>
> *(Diane: "Fascinating")*
>
> *Oh yes Diane, fascinating, hold on to your hat because the very letters, DNA, are an acronym for the words 'Dames Are Not Aggressive'.*
>
> *(Diane: "They stand for Deoxyribonucleic Acid.")*
>
> *Ah yes, but parse in Latin declination and my point is still moot.*

...to the origins of the word "Florida":

> *Norm, it's a little known fact that the word Florida comes from the language of the Okie Canokie Indians and it means, literally, place where the old people come to sweat.*

...but as spectacular as the inner-workings of Clavin's brain are, the pecking order of 'Cliffs' will shortly be topped by a new champion as, on December 31, 2012, America finds itself perched precariously atop what has entered the vernacular as the 'Fiscal Cliff'.

The Fiscal Cliff is a catchy, media-friendly epithet (coined by none other than Ben Bernanke) for a decidedly unfriendly event as US lawmakers face a rather difficult choice that, whichever way they decide to lean, will have massive implications - not just for the US, but the rest of the world. The options before them are to either let current policy take effect on January 1, 2013, or make changes to the proposed tax increases and spending cuts slated to come into force on that day in order to attempt to propel the can just a *little* farther down the road.

As it stands, on January 1 of next year, the Bush-era tax cuts expire as do the payroll tax cut and several tax-relief provisions. Also kicking in is the first installment of the $1.2 trillion in cuts across defense and domestic programs that were reluctantly agreed under the ridiculously drawn-out deficit reduction agreement that was finally reached after the clowns running the circus had the:

A) ineptitude
b) arrogance
c) foolhardiness
d) all of the above

to flirt with disaster and allow the debt ceiling deadline to pass without a resolution being reached. Sadly, it didn't dawn on the fine, upstanding representatives of 'they the people' that drawing a line in the sand along party lines could lead to events beyond their control (or, it would appear, understanding). How clueless were the men charged with the SS America's safe passage through iceberg-laden waters? Well, in April, a full four months before the debt ceiling expired, Timothy Geithner was interviewed by Fox Business reporter Peter Barnes who began the interview with this simple, straightforward question:

> *"Is there a risk that the United States could lose its AAA credit rating? Yes or no?"*

"... Woody, I think you're missing the point here. It's not that Wile E. Coyote wants to eat necessarily or that he wants to eat a roadrunner. What he wants is to eat that particular roadrunner. It's very existential."

CLIFF CLAVIN

If ever I have seen a simple, straightforward question better-designed to be carefully evaded at all costs it was this one. Geithner could hardly be called a neophyte when it comes to the pitfalls of answering questions definitively in today's backed-up world. If he needed guidance, he only had to look to his predecessor as Treasury Secretary, Hank Paulson, to see the dangers of making a simple 'yes or no' answer:

> *"I don't see (subprime mortgage market troubles) imposing a serious problem. I think it's going to be largely contained."* - Hank Paulson, April 2007 (Reuters)

> *"We've got strong financial institutions . . . Our markets are the envy of the world. They're resilient, they're...innovative, they're flexible. I think we move very quickly to address situations in this country, and, as I said, our financial institutions are strong."* - Hank Paulson, March 2008 (Real Clear Politics)

> *"In my judgment, we are closer to the end of the market turmoil than the beginning," he said. "Looking forward, I expect that financial markets will be driven less by the recent turmoil and more by broader economic conditions and, specifically, by the recovery of the housing sector."* - Hank Paulson, May 2008 (USA Today)

Now, if faced with the choice of answering Barnes' question with either 'yes' or 'no', and armed only with my own rudimentary knowledge of being put in such situations, I probably would have opted for one of the two following possibilities:

> *1) Well, Peter, one can never answer such questions in* **absolute** *terms because the world is an uncertain place and no country can control the effects that outside influences have on capital markets, but what I can tell you is that the United States remains the safest home for capital in a world that has been badly shaken and we will do everything within our power to ensure it remains so. We believe that our AAA-rating is secure.*

> *2) How 'bout them Cowboys??*

A bad answer to the question would have been 'yes', but by far the *worst* possible answer Geithner could have given, in the scheme of things, was 'no'.

Actually, that is unfair. The actual answer he gave was far worse than a simple 'no':

> *"No risk of that."*

> *"No risk?" Barnes asked.*

> *"No risk," Geithner said, again.*

Geithner's delivery of the answer is so assured I rather fear he wasn't playing politics—he genuinely believed that it couldn't possibly happen (see for yourself here).

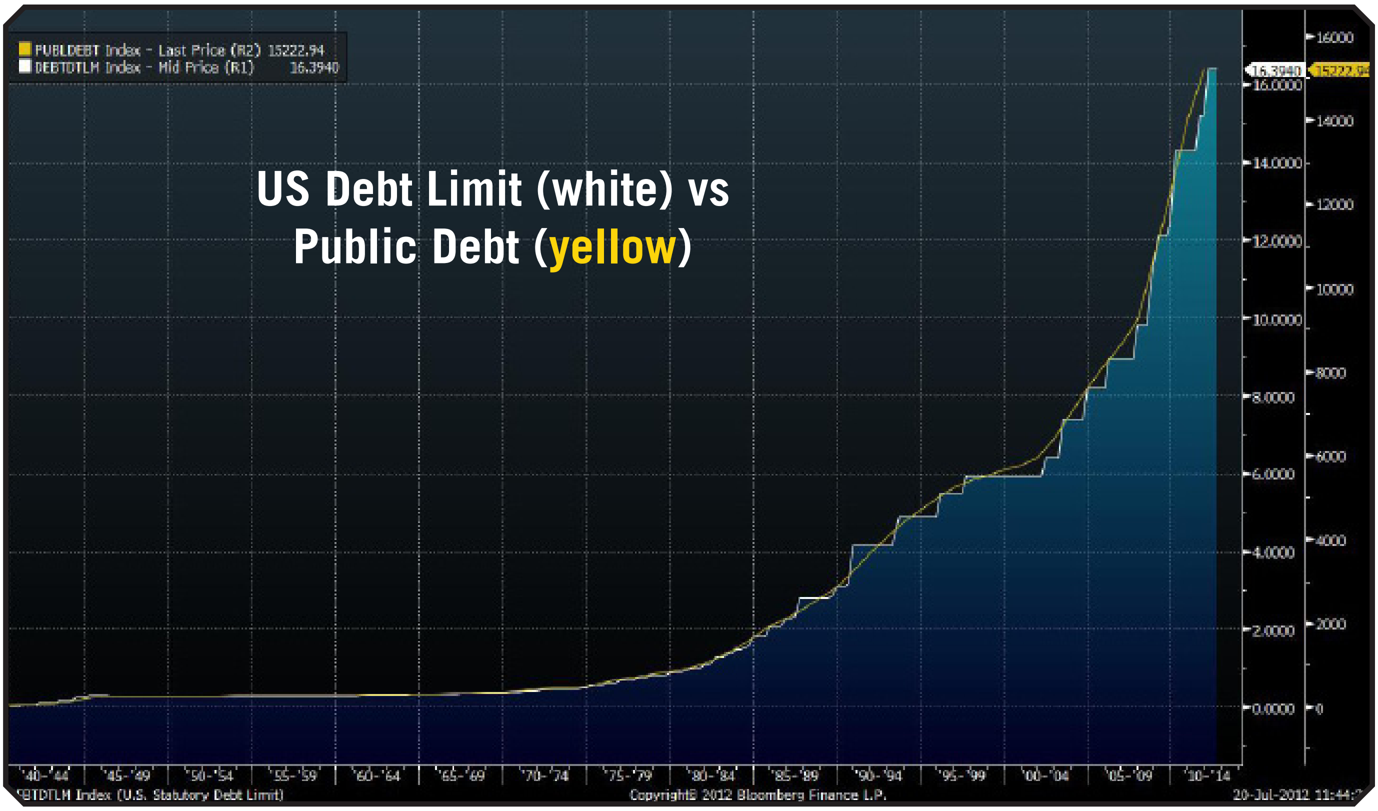
Bloomberg's Jonathan Weil was as perplexed as I was at the time this little exchange took place:

> *(Bloomberg): It's enough to make you wonder: How could Geithner know this to be true? The short answer is he couldn't.*
>
> *All you have to do is read the research report Standard & Poor's published on April 18 about its sovereign-credit rating for the U.S., and you will see it estimated the risk of a downgrade quite succinctly. "We believe there is at least a one-in-three likelihood that we could lower our long-term rating on the U.S. within two years," said S&P, which reduced its outlook on the government's debt to "negative" from "stable."*
>
> *There you have it: Geithner says the chance of a downgrade is zero. S&P says the odds it will cut its rating might be greater than one out of three. So who are you going to believe? Geithner? Or the people at S&P who actually will be deciding what S&P will do about S&P's own rating of U.S. sovereign debt?*
>
> *It would be one thing to express the view that a downgrade would be unwarranted, or that the chance of it happening is remote. Either of these positions would be defensible. Geithner went beyond that and staked out an absolutist stance that reeks of raw arrogance: There is no risk a rating cut will occur. He left no room for a trace of a possibility, ever.*

Unfortunately, this wasn't the first time Geithner had displayed such hubris. During an interview with ABC in February, 2010, when asked the same question, his answer was even more emphatic:

> *"Absolutely not. And that will never happen to this country"*

Now, I fully understand the need for reassurance and showing a confident face to the world, but this whole idea has just gone too far now. What don't you get, Tim? You know how the internet



SOURCE: BLOOMBERG

works, right? You know that every prediction you make will be scrutinized forever and *only* replayed if it was grossly misguided? Either you are being disingenuous, in which case time will judge you very poorly indeed, or you are clueless in which case time will judge you very poorly indeed.

Gah!

Anyway, where were we? Oh yes, the Fiscal Cliff.

Having taken too long to decide on the previous raising of the debt ceiling amidst a bungled process which led to a botched agreement, Congress will once again find itself having to find a way to make meaningful compromises and adjustments in the finances of the United States or face a similar situation to last August, when the S&P500 dived 16% as belief that both sides of the House simply had to get something done in time, turned to disbelief that they really were foolish enough not to.

The agreement reached to raise the ceiling - initially by a stop-gap $400 billion to $14.694 billion, but then by a further $500 billion to $15.194 trillion - and to cut Federal spending by $2.4 trillion, came one day before the United States was set to default but, to be honest, I really can't bring myself to go into the machinations of that agreement again - the dull ache I had in my head at the time that had come from banging it repeatedly against my desk is still too fresh in my mind.

> "... speaking of the Bermuda Triangle, it's not technically a triangle.
> Heck no, it's a trapazeedar-homboid, perfect for attracting Martian spacecraft."
>
> CLIFF CLAVIN

However, the upshot of what was agreed was, even in the current environment, a masterclass in can-kicking as Republicans and Democrats agreed to raise the ceiling on the understanding that they would solve everything later on and the problem kinda sorta went away - for a whole five months.

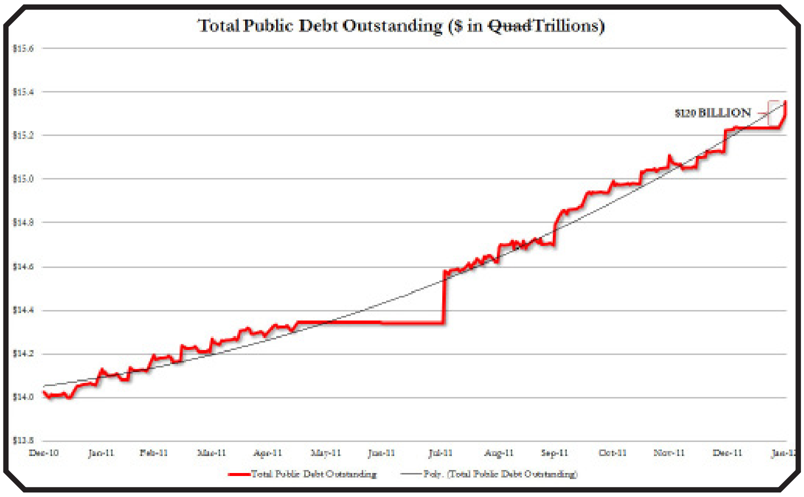
By the time January had rolled around, the US was once again within a mere $100bln of breaching the debt ceiling which allowed President Obama to request another trifling $1.2tln increase. The process for this increase to be granted had been laid out in the negotiations from the previous August and, in case you were wondering why it had taken so long to be hammered out, the clues were all in the convoluted structure put in place. Bank of America Merrill Lynch weighed in on the topic at the time:

> *(BAML): The process spelled out in the Budget Control Act BCA for raising the debt ceiling goes like this:*
>
> *Once the Treasury informs the President that the outstanding federal debt is closing in on the limit, he can request an increase from Congress.*
>
> *Congress can then reject that request by majority vote in each house.*
>
> *The President can respond with a veto to maintain the increase.*
>
> *At that point, Congress can try to override the veto, which requires a two-thirds majority vote in both houses.*
>
> *The wrinkle to these plans is that, according to the BCA, once the President makes the request to raise the debt ceiling, Congress has 15 days to hold a vote to reject it. If it fails to do so, the debt ceiling increase would occur regardless. However, the House is not back in session until January 17, while the Senate returns on January 23. Recall that the whole design of the BCA was to allow members — mostly Republicans — to symbolically vote "no" on the debt ceiling increase while allowing it to (eventually) pass and avoid a default. Thus, the President agreed to postpone his request not for economic or budgetary reasons, but to allow these legislative machinations to occur.*

The raise agreed in January instantly gave those in charge of America's purse strings an additional $1.2trln to play with.

It's hard to believe, after such bitter and protracted negotiations a mere five months previously, that this much money could be found so readily, but that's the way the game works; a lot of sound and fury at the time leads to the mechanism being quietly inserted to make the next time around far, far simpler—and folks, there will *always* be a 'next time'.

Amazingly, over the weekend after the agreement was made to add yet another $1.2tln to its credit card bill, the USA went on a celebratory shopping spree, spending $120bln in replenishing the money it had ~~pillaged~~ 'borrowed' from the social security G-Fund in order to somehow remain under the limit the previous week. The mightiest country in the world was essentially looking for coins under sofa cushions with which to pay the gas bill. Tragic.



CLICK TO ENLARGE SOURCE: ZEROHEDGE

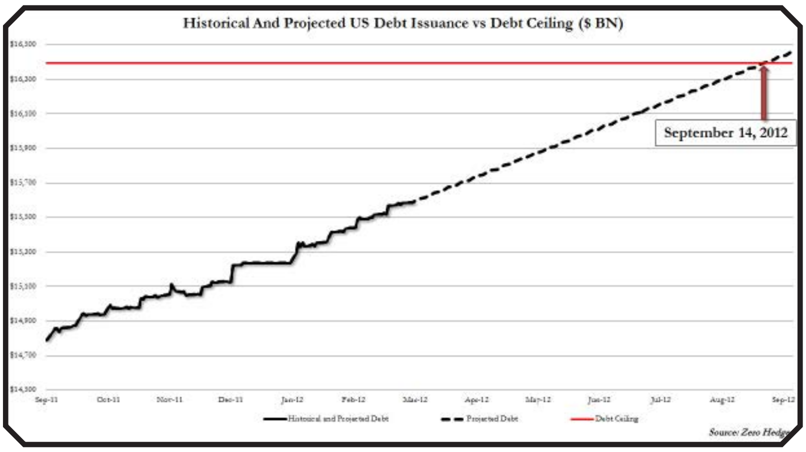
Incidentally, by way of a little perspective, that $120bln spent over the first weekend of the newly-raised limit, was the same amount as the collective nominal deficit that the USA ran up from 1945 to 1972. How times change.

That wasn't the last of the issues though:

(Zerohedge): It gets worse: even according to the drastically, and very unrealistically, downward revised borrowing expectations of the Treasury released yesterday, the US will issue $444 billion in debt in this quarter. Today's number means that in February and March alone Tim Geithner will raise another $310 billion, which will send total debt to $15.7 trillion as of March 31. What is the final debt ceiling? Just under $16.4 trillion. So the US will have $700 billion in debt issuance capacity for the 7 months leading into the presidential election (and 9 until the end of the year).

Debt-to-GDP was, at this point in time, over 100% once again (not that that matters much for a while when you have a printing press. Not for a while), but the more worrying part was the trajectory of the debt increase, which it would be hard to dispute was... well... parabolic, frankly (chart, left).

Currently, the US National Debt stands at $15.22 trillion with an upper limit of $16.394trln which, when set in August 2011, was projected to last until over halfway through 2013, but, in March, despite everybody's favourite Sec Treas, Timothy Geithner's predictions that the limit wouldn't be breached again until "late in the year", my friends at Zerohedge took a look at the deficit trajectory and the upcoming issuance calendar to make a projection of their own:



CLICK TO ENLARGE SOURCE: ZEROHEDGE

> *(Zerohedge): at the current rate of debt issuance, which incidentally is going to accelerate sharply due to the recent extension of the payroll tax cuts which will require an incremental $100-150 billion total debt to be funded, and extrapolating future issuance solely on historical patterns, the **US debt ceiling D-Day will be September 14, 2012**... (chart, bottom previous page)*

Funny how things tend to pick up speed when they go downhill.

The effect on the USA of its casually wandering over the Fiscal Cliff will be catastrophic; adding approximately $607bln to the US deficit which in turn would sap anywhere up to 4% (according to the CBO) or possibly even 5% (if Chairman Bernanke—in full-on 'scare Congress' mode—is to be believed) from US GDP and send the country crashing into outright recession (or further into recession depending on how things continue to deteriorate in the coming months). "That we cannot have" was the opinion of Erskine Bowles who, along with former Sen. Alan Simpson, devised a debt reduction plan last year to prevent this doomsday scenario.

Year	Total ($ Millions) Receipts	Outlays	Surplus (+) or Deficit (-)
1998	1,721,728	1,652,458	+69,270
1999	1,827,452	1,701,842	+125,610
2000	2,025,191	1,788,950	+236,241
2001	1,991,082	1,862,846	+128,236
2002	1,853,136	2,010,894	-157,758
2003	1,782,314	2,159,899	-377,585
2004	1,880,114	2,292,841	-412,727
2005	2,153,611	2,471,957	-318,346
2006	2,406,869	2,655,050	-248,181
2007	2,567,985	2,728,686	-160,701
2008	2,523,991	2,982,544	-458,553
2009	2,104,989	3,517,677	**-1,412,688**
2010	2,162,724	3,456,213	**-1,293,489**
2011	2,303,466	3,603,061	**-1,299,595**
2012E	2,468,599	3,795,547	**-1,326,948**
2013E	2,901,956	3,803,364	-901,408

SOURCE: OFFICE OF MGMT AND BUDGET

Bowles was just warming up, however:

> *"If we do nothing and barrel through this fiscal cliff at the end of the year, we are going to have about $7 trillion hit this country right in the gut,"*

Stark.

A look at the statistics published by the Office of Management and Budget (OMB) demonstrates just how swiftly the US deficit has spiralled out of control in recent years. More worrying still—and illustrative of exactly how these organizations work—are the figures for the first full year where no hard data is available i.e. that is solely reliant on ~~the suspension of disbelief~~ government estimates; 2013.

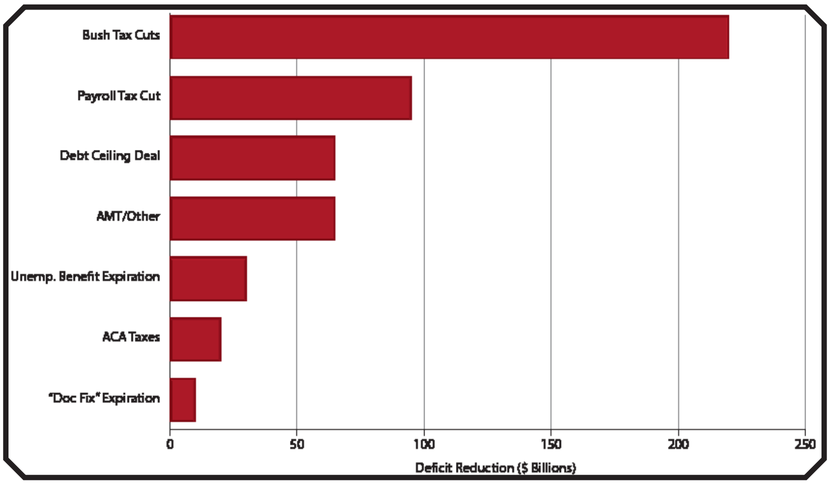
(WARNING: adjective-infested paragraph) As you can see from the table (left), next year (always *next* year), the OMB is predicting that the US will see a *huge* 30% reduction in the deficit which will be achieved through the magical combination of a *whopping* 18% increase in receipts combined with a *tiny* 0.2% increase in outlays.

Seriously.

"So, how is this all going to play out", I hear you ask. Well, according to the Washington Post, it breaks down like this:

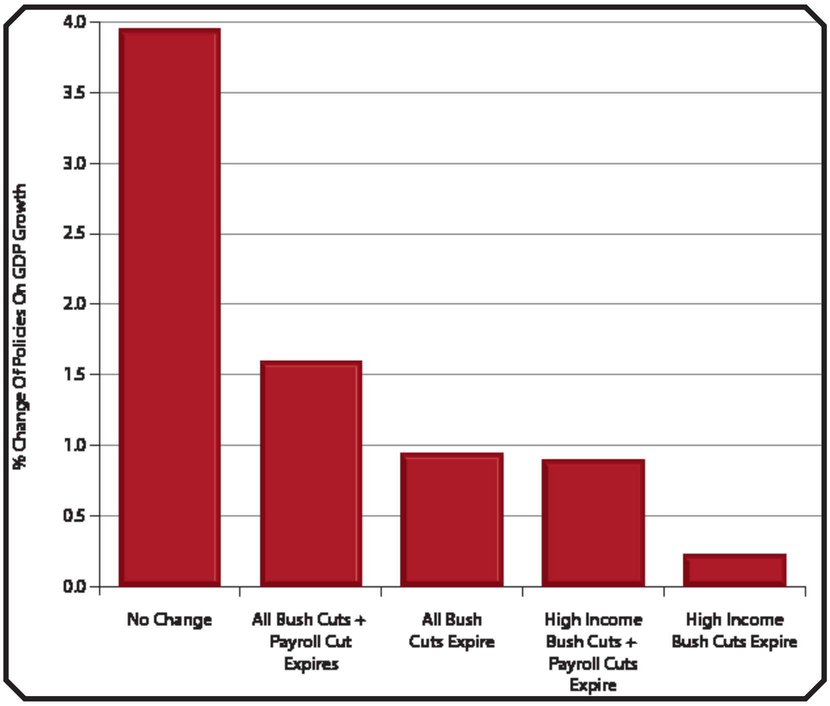
> *(WaPo): The payroll tax break expires this December, and the Bush tax cuts expire Jan. 1, meaning that new, higher rates will take effect the following year. Since payroll taxes are deducted from wages every week, the effect there will be immediate, whereas the income tax rate increases only affect income starting in 2013. If employers adjust withholding, the effects could come sooner, but if there are logistical hurdles to that, the economic dent could be delayed.*

The sequestration cuts will take effect starting in January too, meaning their impact, like the payroll tax cut's expiration, will be more immediate. The cuts are evenly split, with $27 billion each in 2013 for defense and non-defense spending, plus $12 billion in cuts to Medicare.



SOURCE: CBO/TTMYGH

The chart above shows the expected effect on the deficit of the various constituents and, as you can see, it's the Bush tax cuts that have by far the biggest impact, but according to CBO estimates, if just the payroll tax cuts were allowed to expire but the other provisions were extended, the effect on GDP would be a reduction of 2.3%.



SOURCE: CBO/TTMYGH

The Washington Post also looked at the varying effects on growth of a range of different policies and the picture, I am afraid, does not look pretty, as the chart at the bottom of the page shows.

According to the OMB estimates, any attempt to do something remotely meaningful will result in at least a percentage point reduction in US GDP, which is fine in a world of 3% growth, but today that 1% is not something these guys have to play around with.

In the run-up to December 31, you can guarantee that the issue of the US Fiscal Cliff will replace Europe as the major concern facing the world in general and the US in particular and, if things continue to deteriorate at their current pace, anything that will lead to even a 0.5% cut in GDP will be seen as a disaster.

Ernst & Young threw their considerably-sized hat into the ring this past week with a helpful survey into the ancillary effects allowing the Bush tax cuts to expire on December 31:

(CNBC): Hiking taxes on upper-income Americans could cost 710,000 jobs, according to a new study.

The study, from Ernst & Young and a collection of pro-business groups that includes the National Federation of Independent Business and the U.S. Chamber of Commerce, looked at the impact of raising taxes on capital gains and dividends and hiking the top two individual tax rates to 36 percent and 39.6 percent respectively. It also included the tax hikes for health-care reform.

The report found that all of the hikes combined would cause output to fall by 1.3 percent and capital stock and investments to fall by between 1.4 percent to

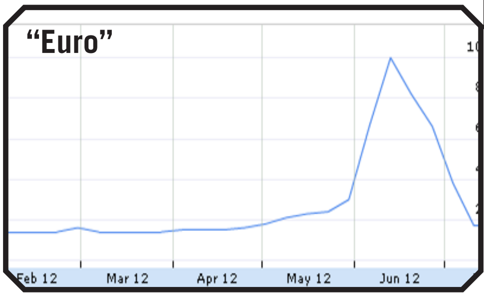
2.4 percent. It said employment "in the long run" would fall by half a percent, or by about 710,000 jobs. Wages would fall 1.8 percent.

"This report finds that these higher marginal tax rates result in a smaller economy, fewer jobs, less investment, and lower wages," the report stated.

Should the Bush tax cuts be allowed to expire (something President Obama and the Democrats seem hell-bent on ensuring), the top tax rate will climb from 35% to 40.9%, the top tax rate on dividend income will soar to 44.7% from 15% and the tax on capital gains will increase to 24.7% from the current level of 15%.

Last week in the pages of Things That Make You Go Hmmm..... I predicted that François Hollande's attempts to increase tax revenue in France by increasing taxes on the 'wealthy' would end up having the opposite effect and I can't think of any reason why the same wouldn't be true in the United States. Neither country can afford to get this one wrong. Both seem set to do so.

It's hard to foresee a set of circumstances under which America's elected representatives put aside partisan squabbles and knuckle down to make the hard decisions that absolutely need making in order to save their constituents from impending disaster, but what IS certain is that the shift in focus to the Fiscal Cliff we spoke about earlier has already begun as a look at Google searches for the terms 'euro' and 'Fiscal Cliff' demonstrates. The Washington Post continues to monitor the situation and, in a recent piece, they shed some light on this change in focus in the United States as potential troubles at home becomes more of an issue than those continuing to dog Europe:



(WaPo): For much of the year, economists worried about the impact of the slowdown in Europe on the U.S. economy. Now, analysts say anxiety about the impact of the fast-approaching fiscal cliff — the series of federal spending cuts and tax hikes set to take effect at the beginning of 2013 if Congress and the Obama administration do not act — is displacing Europe as the primary threat to the nation's sputtering economy.

Morgan Stanley said this week that concerns about the fiscal cliff are reaching new heights across a wide range of industries. It is already seeing reductions in business orders and hiring, among other areas.

"While our analysts are somewhat less worried about the impact of European bank strains," a Morgan Stanley report said Monday, "the negative impact of fiscal cliff uncertainty is becoming more widespread."

The potential economic impact could smother the flickering recovery and further stifle job creation, analysts warn.

The Fiscal Cliff is coming, folks, and the speed with which it approaches is going to pick up in the coming weeks, but rather than this be a choice between focussing on that *OR* Europe, the world will be forced to deal with both simultaneously because there is just no way that Europe's leaders will be able to fix what ails them before the market's own solution presents itself.

Maybe a way to avoid the catastrophe of going over the Fiscal Cliff is discovered before the event, but I suspect, based on evidence seen through the process to date, that a stopgap measure will be found to enable the can to be kicked once more down the road without any tough decisions having to be made—after all, there is an election to get through first and nobody is about to make unpopular choices ahead of that in case those choices affect their chances of re-election (which, as always, is by far the most important issue facing US politicians). Once the 45th President has been elected, the posturing will commence in earnest and we can expect to see all kinds of grandstanding in the House, but those elected to make the necessary decisions need to be aware that sooner or later, mathematics always catches up and, right now it is closing in fast.

'The Fiscal Cliff'. Familiarize yourselves with it, folks. You're going to be hearing a lot more about it from here on in, I promise you.

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This week's fun and games begin with a parable about aeroplanes and ends with a look at rare earth metals. In between we take a look at how Compton is set to become California's fourth municipal bankruptcy within a few weeks, hear how a familiar face from the past could be the last thing Italy needs, read the fascinating tale of the hedge fund manager taking on Vladimir Putin and visit with my friend John Mauldin to share a presentation he gave here in Singapore this week entitled 'The Lion in the Grass'.

Spain continues to be Ground Zero in Europe and it seems as though, as people take to the streets to protest further austerity measures, the regions' financial troubles are set to blow the situation wide-open once and for all and, meanwhile, as Antonio Samras declares Greece to be in a 'Great Depression', the IMF appear to be on the verge of abandoning the crippled Aegean nation once the ESM is up and running - saving their firepower for another day one would imagine.

Michael Pettis decries the market's 'unacceptable behaviour', Stephanie Pomboy is interviewed by Barron's and predicts the end of fiat money, Messrs. Brodsky and Quaintance are back with an interesting asset allocation recommendation and we look at bull and bear panics as well as everything you need to know about those rare earth metals.

We hear once again from Nigel Farage, Jim Puplava interviews Bert Dohmen of the Wellington Letter and Charles Ferguson, Oscar-winning director of Inside Job' talks about the state of the financial landscape post-2008.

I will leave you with the wisdom of Cliff Clavin to help you through the week.

Until next time.

"... I wonder if you know that the harp here is the grandfather of the modern day guitar. Yeah, it seems that early Minstrels were much larger people. Yeah, they had hands the size of small dogs."

CLIFF CLAVIN

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And Finally.....

The Gonnie, Gonnie Banks

#	Bank	Assets ($m)	Deposits ($m)	Cost ($m)
34	Royal Palm Bank of Florida, Naples, FL	87.0	85.1	13.5
35	Georgia Trust Bank, Buford, GA	119.8	117.4	20.9
36	First Cherokee State Bank, Woodstock, GA	222.7	193.3	36.9
37	Heartland Bank, Leawood, KS	110.0	102.6	3.1
38	Second Federal Savings and Loan Assoc. of Chicago, Chicago, IL	199.1	175.9	76.9
	Total Cost to FDIC Deposit Insurance Fund			**151.3**

An old friend in the aviation business, with years of experience with Greek clients, told me a story that serves as a parable for how the country got into its current state. It concerns the sale of four Airbus long-haul planes after the national flag carrier, Olympic Airways, went bust. In 2007 an American valuation consultancy, Avitas, put a value of $45m on each of the A340-300 planes, which were then eight years old and still airworthy. Offers by outside firms to handle the sale were turned down. Instead a special state-owned firm with hundreds of employees was established, just to flog the four surplus planes.

In 2010 a small German airline called Cirrus offered $23m each for them. But the Greeks rejected this because of a rule that state assets could not be sold for less than 75% of their declared value. They then called for another expert valuation on the planes, which by then had been grounded for a year: the valuers marked them down to just $18m each.

> "... a sale of surplus state assets that might have strengthened Greece's coffers by $180m in 2009 ends up raising just $40m, three years and two international bail-outs later."

By then, this tiny part of the second-hand airliner market was becoming flooded with this type of four-engined aircraft, which had been made uneconomic by high fuel prices. This, and the deteriorating state of the grounded planes, pushed their value steadily lower. By 2012, after three years sitting unused and un-serviced in the humid atmosphere of Athens, the only offer was from Apollo Aviation in Miami, which wanted the planes for scrap. The Greek trade unions kicked up a fuss about state assets being flogged cheaply abroad. But the deal was eventually sealed by the new government earlier this month, with the planes being sold for just $10m each.

So, a sale of surplus state assets that might have strengthened Greece's coffers by $180m in 2009 ends up raising just $40m, three years and two international bail-outs later. In part the most recent slump in value is because the buyer will have to spend up to $20m on repairs to make the planes fit enough to be ferried across the Atlantic with no passengers (which is cheaper than full restoration). At these prices it might have even been better to break them up for scrap in Athens: at least that would have provided a bit of work for jobless Greeks.

ECONOMIST / **LINK**

Protesters took to the streets of 80 Spanish cities on Thursday night after prime minister Mariano Rajoy's People's party (PP) pushed a €65bn (£51bn) austerity package through parliament and the country paid record prices to borrow money from sceptical markets.

More than 100,000 people were estimated to have joined in demonstrations called by trades unions, with about 50,000 gathering in Madrid. Police fired rubber bullets to disperse the protesters in Madrid.

Angry civil servants had blocked traffic in several main Madrid avenues earlier in the day, with protesters puncturing the tyres of dozens of riot police vans, amid growing upset at austerity, recession and 24% unemployment.

Rajoy was able to get the measures through parliament comfortably, using only the votes of PP MPs.

The finance minister, Cristóbal Montoro, who warned on Wednesday there was no money for civil service wages, said Spain could not go deeper into debt. "Financing public services with more deficit and more debt will doom us," he said.

Proof of Spain's growing financing problems came when it paid a record interest rate of 6.459% to sell five-year bonds, while rates on 10-year bonds rose back above the unsustainable 7% level.

France paid less than 1% for similar five-year bonds as investors shunned southern economies for what they saw as the eurozone's safer core.

A bailout for Spain's ailing banks was approved in a key vote by the German parliament, though a last-minute surprise in the package saw a move towards enabling potential bond-buying with leftover money from the €100bn on offer.

Officials in Brussels and Madrid insisted that bond-buying and bank bailouts were not connected, even though they appeared in a bailout document released on Thursday.

"The aid programme for bank recapitalisation is destined only for that and not for the purchase of bonds on the primary or secondary markets," a Spanish government source said.

European commission spokesman Simon O'Connor said: "There is no link between assistance for bank recapitalisation in Spain and any other type of financial assistance, which might be requested at some further juncture by Spain or anybody else."

"... Leaving the door confusingly ajar as to a larger rescue does not help Spain, whose financial needs would anyway be much larger."

But a draft European financial stability facility (EFSF) bailout contract published by the German parliament lays out the conditions by which Spain might request the funds to buy bonds with money currently earmarked only for banks.

Madrid would have to formally ask eurozone finance ministers for their agreement and then renegotiate the memorandum of understanding as specific terms for that aid were drawn up.

"What Spain and the market need is some reassurance on the eurozone agreement that the Spanish state would not be responsible for the bank bailout," said Luis Garicano of the London School of Economics. "Leaving the door confusingly ajar as to a larger rescue does not help Spain, whose financial needs would anyway be much larger."

Germany's finance ministry said Spain would need €300bn in "European refinancing funds" between now and the end of 2014 if cut out of the bond markets.

★ ★ ★ *UK GUARDIAN* / **LINK**

Compton, Calif. could be the fourth city in the Golden State to seek bankruptcy protection.

At a city council meeting Tuesday, officials announced that Compton is set to run out of funds by Sept. 1. Compton, which has only 93,000 residents, faces a deficit of $43 million after having depleted a $22 million reserve, reports Reuters.

"I have $3 million in the bank and $5 million in warrants due in the next 10 to 12 days," said city treasurer Doug Sanders during the live-streamed city council meeting. "By then, the council will have a decision to make: don't pay the bonds, default on them, or have a serious talk about bankruptcy."

Standard & Poor's put Compton's revenue bonds on a negative credit watch last Friday, citing concern over allegations of "abuse of public moneys" and fraud, reports the Los Angeles Times.

S&P also warned that unless they receive independently audited financial information from Compton, the city's ratings -- already at BB, or "junk" status -- could be withdrawn or suspended.

Compton may not be able to meet S&P's demands in time. The city's independent auditor, Mayer Hoffman McCann, recently declined to sign off on the city's financial statements and quit the account entirely, reports the Times. The firm stated that they couldn't get anyone at the mayor's office to cooperate with the audit inquiry.

The threat of bankruptcy has loomed over the Southern California city for more than a year now. In July 2011, the Compton City Council approved dozens of layoffs to keep their city financially solvent.

While it's unknown exactly why Compton faces such dire financial straits, the city has collected less property taxes due to rising home foreclosures, notes Reuters. Compton also has an unusually high unemployment rate of 18.8 percent. Nationwide, that figure is 8.2 percent.

California cities Stockton, Mammoth Lakes and San Bernardino have all declared their intention to file for bankruptcy protection this month.

The string of California bankruptcies is part of a larger trend of local and state governments facing budget woes. A recent report from budget experts found that local governments will likely face intense financial challenges in years to come if no one takes action.

HUFFINGTON POST / **LINK**

The text message Bill Browder, a London-based hedge fund manager, received on his phone was lifted directly from a mafia thriller. "If history has taught us anything, it is that you can kill anyone," Michael Corleone says in "The Godfather: Part II." Browder doesn't know who sent him the quote.

It wasn't, however, the only one. The 48-year-old has several such text messages, which he believes to be from Russian intelligence agents. He explains all this in a matter-of-fact, business-like tone, as if this were all still just a question of money and business rather than life and death.

> **"... He has prison commission reports, entries in real estate registers and bank account information, and says he's identified 60 officials, some of them high ranking, who were involved in his lawyer's death."**

Two and a half years ago, Browder's tax attorney, Sergei Magnitsky, was beaten in Moscow's notorious Matrosskaya Tishina detention center. Shortly afterward, Magnitsky was dead. "Sergei was tortured to death," Browder believes.

The case has turned a spotlight on the Russian government's harassment of businesses and foreign investors within its borders. The Kremlin's legal system has thrown over 100,000 businesspeople in jail, with oil baron Mikhail Khodorkovsky being the most prominent one among them.

But Browder isn't the type to be easily intimidated. His story reads like a modern-day Damascene conversion, becoming a human rights crusader in addition to a hedge fund manager. It's also a story of battling Russia's strongman, Vladimir Putin, who was reinstalled as his country's president this May and wants to consolidate Russia as an international economic power.

In his previous life, Browder headed one of the most powerful foreign hedge funds in Putin's realm. In its heyday, Browder's company, Hermitage Capital Management, managed investments worth $4 billion (€3.3 billion), mostly in the lucrative energy sector, for clients such as American investment bank Goldman Sachs and wealthy private individuals.

But since then, Browder has shut down his operations in Russia and brought his employees from Moscow to London. From his unadorned office in London's Soho district, he now wages his campaign against the same country whose predatory model of capitalism made him a multimillionaire in the first place -- and has proven just as successful in his new pursuit as he was as a businessman in Russia. The Browder case has become an issue at the highest levels of politics.

The Organization for Security and Cooperation in Europe (OSCE) recently issued a recommendation to its 56 member states to impose harsh sanctions against Russia, suggesting that those officials responsible for Magnitsky's death be forbidden from entering OSCE member nations and that their bank accounts in Western countries be frozen. The US Senate had already introduced a bill prior to the OSCE recommendation that would implement similar measures. Putin, meanwhile, has hinted darkly that there will be "countermeasures."

In his expensive suit and rimless glasses, Browder doesn't look like the typical human rights activist. He arranges a dinner meeting at one of London's finest Chinese restaurants; there are Rolls-Royces waiting outside his door.

Yet Browder is just as obsessed with his current battle as he once was with the hunt for lucrative investment opportunities. He almost has less free time now than he had then. What he does do in the few hours that remain after he finishes his workday he prefers to keep a secret, so as not to open himself up to attack.

This financial professional with the surprisingly shy gaze often seems agitated. He says he feels responsible: "If Sergei had never known me, he wouldn't have had to die."

Browder has compiled an enormous amount of material from both public archives and secret informants. He has prison commission reports, entries in real estate registers and bank account information, and says he's identified 60 officials, some of them high ranking, who were involved in his lawyer's death.

When Browder wants to win over allies for his cause, he quotes from some of around 450 complaints Magnitsky filed during the 358 days he was imprisoned. "At breakfast, we get porridge with insect larvae, and at dinner, rotten boiled herring," one complaint reads. These drastic accounts -- of insufficient food, filth, isolation and a lack of medical treatment -- make a farce of Putin's promises to create a modern constitutional state.

Browder didn't get a hold of these records until after Magnitsky's death, but they showed him a side of Russia he claims he never knew before.

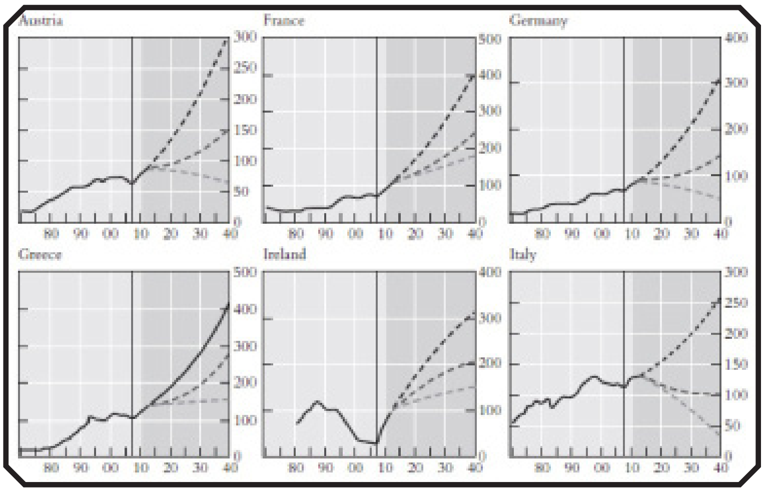
DER SPIEGEL / **LINK**

Don't look now, but the lion that lies hidden in the grass is France. Yes, the France that is supposedly a big part of the solution to eurozone woes and

Germany's stalwart partner in guaranteeing all that debt. AAA France. Rated that way by the same people who turned the nuclear waste of subprime CDO squareds, composed 100% of the worst sort of BBB junk, into gold.

Now, the rating agencies are using the same alchemical Philosopher's Stone to transmute French debt into ... fool's gold.

France deserves (and will soon get) its own full letter. But while you are waiting, let me highlight a few thoughts. First, let's look at this chart from the IMF, examining the debt prospects of six countries (The entire study was of 18 countries.) The dotted lines are three paths that the debt-to-GDP ratio can follow. The top line is the trajectory without any actions by the individual governments. The middle dotted line is what the debt trajectory would look like with mild reforms to entitlements, and the bottom line is the debt trajectory if very draconian measures are taken.



SOURCE: MAULDIN/BIS

See if you can spot the hidden lion by guessing which country's debt situation looks most like France's.

Yes, the country most like France is Greece. Yes, THAT Greece. The one that just defaulted. The one that everyone agrees is dysfunctional. Also notice that if Greece were to follow the suggested draconian path, it could stabilize its debt. And then notice that if France were to make the same level of draconian cuts, its debt-to-GDP ratio would merely rise to almost 200% within 25 years. Oops.

So, what has been the response of the new French government? It has decided to double down on what was already an irresponsible path. Do you think the average German understands just how bad off their "partner" is? For that matter, do you think the average French politician understands how bad off France is? Certainly not the majority of them, and it is doubtful that their counterparts in Germany do, either. This is going to be a train wreck of truely biblical proportions. Think 12 plagues, not the run of the mill 10.

Hollande evidently has very good political instincts and knows how to work the system. Unfortunately, he has the economic understanding that God gave a goose. Someone should sit him down and make him read all of Bastiat's essays. (It might just be too much to ask a French Socialist politician to read an English or Austrian economist who actually understood how things work.)

> "... [Hollande] is raising the wealth tax on those whose have a net worth of over €4 million to double what they were expecting. This is called the contribution exceptionnelle sur la fortune. No translation is needed"

Let's look at what Hollande has done in his first month. He lowered the retirement age from the 62 that Sarkozy was barely able to get it up to, back to the ripe old age of 60. He has raised the taxes on those making over €1 million to 75%. He is raising the wealth tax on those whose have a net worth of over €4 million to double what they were expecting. This is called the contribution exceptionnelle sur la fortune. No translation is needed. You think a few people might decide to move to Spain? Or Switzerland? Capital will go to where it is loved and wanted. And those with a little wealth cannot be feeling a lot of love, if they are in France.

Note that the contribution exceptionnelle is on net worth, not on income. But the politicians promise it is just for the current emergency. It can go back down when the crisis is over. Except that France is getting ready to enter a permanent crisis. Can you see which direction this is heading? Can you see which direction the wealthier French citizen is headed? You can get a reservation in a good French bistro these days if you live in London. Just saying...

★ ★ ★ *JOHN MAULDIN* / **LINK**

Even as eurozone finance ministers unanimously approved a loan package of up to €100bn to repair its banks, a surge in the country's bond yields suggested that doubts about its financial position were rapidly mounting.

The approval by the eurozone's 17 finance ministers was granted on a conference call on Friday and was considered a formality after they reached a political agreement with Spain earlier this month.

But any positive sentiment from the announcement was undermined as Madrid on Friday revised its growth forecast for 2013 downward. The government said it now expected the economy to contract 0.5 per cent next year instead of growing 0.2 per cent, with unemployment remaining at about 24 per cent.

In another sign of the growing strain on the country's finances, authorities in Valencia said they would seek support from an €18bn emergency fund created by the central government to help struggling regions.

Several large regions, including Catalonia with its economy the size of Portugal's, have called on Madrid to support them in refinancing their debts after finding themselves closed out from the capital markets.

Valencia was one of the engines of Spain's real estate bubble, with all three of its local savings banks at one point falling under state control after lending aggressively to developers.

Spain had hoped the bank overhaul would reassure financial markets that it can contain the crisis and avoid a larger bailout. Under the terms of the deal, a first payment of up to €30bn is expected to arrive in Spanish coffers before the end of the month so that the country can begin recapitalising a financial system that has been

CLICK TO ENLARGE **SOURCE: MIKE SHEDLOCK**

devastated by a property bubble collapse and a grinding recession.

Olli Rehn, Europe's economics commissioner, said: "The aim of this programme is very clear: to provide Spain with healthy, effectively regulated and rigorously supervised banks, capable of nurturing sustainable economic growth."

Mr Rehn noted that Spain would also be expected to cure the government's excessive budget deficit by 2014 and push through structural reforms.

But the tense debate over the bailout this week in some national parliaments – particularly Finland and Germany – reflects growing reluctance among the eurozone's credit-worthy northern members to continue supporting struggling governments on the periphery.

"It was a necessary decision to take, even though it's very hard," said Jyrki Katainen, Finnish prime minister, after parliament approved its share of the bailout on Friday. "It's unpopular, but we have to take responsible moves and steps because the economic situation is so challenging."

★ ★ ★ *FT* / **LINK**

FEW things could be worse for Italy's credibility (and creditworthiness) than for investors to spend the next nine months wondering if Silvio Berlusconi will return as prime minister. But that is increasingly likely.

Since late June, he has been teasing the public and media with increasingly blatant hints that he intends to be his party's candidate at the next general election, to be held by the spring of 2013. He has still not said so publicly. But in an interview on July 14th he appeared to treat it as fact, saying he "would have preferred to have made the announcement later".

The day before, his doctor said the 75 year-old billionaire was fit for the fray, though adding that Mr Berlusconi had gone on a diet to shed eight kilos. It then emerged the former prime minister was to hold a behind-closed-doors meeting with an international group of liberal economists. His plan, said aides, was to relaunch his party, the Freedom People (PdL), on the basis of the free-market principles he espoused when he first entered office in 1994, but which he signally failed to apply in the nine subsequent years when he governed Italy.

In another sign that Mr Berlusconi is aiming for a new start, the PdL's general secretary, Angelino Alfano, said he thought Nicole Minetti, an embarrassing reminder of the former prime minister's recent past, should resign as a regional councillor in Lombardy. Ms Minetti, a former showgirl, is on trial for allegedly supplying prostitutes for so-called bunga-bunga parties at Mr Berlusconi's mansion near Milan. Her co-defendants have already conveniently disappeared from public life. One, a television newscaster, was sacked from Mr Berlusconi's network. The other, a show-business agent, is in jail charged with bankruptcy offences.

If nothing else, recent events have shown that the media tycoon still has a sublime ability to draw attention to himself. By the time Ms Minetti, who had fled to Paris, reappeared in a blaze of photographers' flashes, a nation that had spent months fretting over sovereign bond yields was once again discussing Mr Berlusconi, his intentions and his shapely lady friends.

But does this mean that, as in the late 1990s and mid-2000s, he can return from political near-death? In the eight months since he left office, naming Mr Alfano as the PdL's prime-ministerial candidate, his party's popularity has plunged. Its latest poll ratings were little better than those of the maverick Five Star Movement led by Beppe Grillo, a blogger and comedian.

ECONOMIST / **LINK**

"Hear Me Now, Believe Me Later," was the title of two separate and prescient pieces penned by [Stephanie] Pomboy, an economist and founder of the MacroMavens research boutique. One, published in March 2006, foretold the disastrous costs of the housing bubble. The second, somewhat later, laid out the consequences of the bubble's "financial echo." Today, Pomboy predicts something more draconian: the demise of fiat money—currencies that aren't backed by anything other than government decrees that they have value.

"... Bernanke left the door wide open to moving when the data mandate. I believe it will happen before the next election"

We checked in with her last week, as central banks around the globe weighed more easing and as Fed chief Ben Bernanke described to Congress the headwinds facing the U.S. economy, including the automatic tax increases and spending cuts set for year end, called the "fiscal cliff." With the Fed being the biggest buyer of Treasuries, Pomboy thinks the 40-year-old fiat system will crack within five years.

Barron's : What don't investors anticipate today?

Pomboy: That the Fed will be a presence in the Treasury market for a long, long, long time. Some believe that, with another round of quantitative easing, we move forward, emerge from the morass, and the need for further intervention will dissipate. But the Fed is really the only natural buyer of Treasuries anymore. It will have to continue to monetize Treasury issuance at the same time all the other major developed economies—from the Bank of Japan to the Bank of England to the European Central Bank—are doing the same. Pursue that to its natural conclusion, and you see the inevitable demise of fiat money. To look at our policies and not be concerned about the risks to our currency would be dangerously naive.

One step at a time. When is the next round of QE?

Bernanke left the door wide open to moving when the data mandate. I believe it will happen before the next election. The one success the Fed has achieved with its postbubble, postcrisis stimulus is reinflating financial assets. To watch the S&P 500 go down every day is to watch it be undone. The Fed is trying to engineer a wealth effect, so high-end consumers spend, so companies catering to them will hire and increase capex, [capital expenditures] and—lo and behold!—the seeds of a sustainable recovery will be sown. It hasn't played out like that. They have financial-asset inflation and high-end consumer spending. The logjam is that corporations are disinclined to increase hiring and expand.

Which accounts for the fat margins investors love.

Cost-cutting has been a huge driver of those margins, but what is still underappreciated is that, if you look at the recovery in GDP since before the crisis, 83% of the increase is explained by higher prices. Only 17% is from an increase in demand. That explains the profit margin story. Companies have been able to pass on higher prices, even in the most discretionary forms of consumer spending. If you look at retail sales, actual units sold are lower than they were before the crisis. It's entirely an inflation story on the retail sales side. Consumers aren't buying more because they feel great. They are spending more because the prices have gone up. But now consumers are reaching their limits. Since June 2010, households have drawn down savings. But in the past three months, they've put $65 billion back into the cookie jar, which suggests that they've reached their threshold. Middle-income consumers are also adjusting to the new realities of living within a budget. Wal-Mart is attracting a broader audience. And you have a troubling slowdown at the high end, since financial assets are starting to teeter. As you see the fraying fortunes of these high-end retailers, and low- and middle-income consumers tighten their budgets, there's urgency for the Fed to act.

That sounds bad...

★★★ *BARRON'S (VIA TR)* / **LINK**

But what the market needs is not for investors to start trusting policymakers more. Rather it needs actions that reverse the downward spiral in which countries like Spain find themselves, in which each sector of the economy – from workers to creditors to businessmen to middle class savers to policymakers themselves – are rationally and in self-defense acting in ways that increase the country's debt, reduce growth, and exacerbate balance sheet fragility.

"... railing at the markets rather than trying to understand why they are doing what they do (which anyway makes them far more rational than if they responded to the pronouncements coming out of Brussels) is counterproductive."

Unfortunately there isn't much that can be done in a big enough or credible enough way to reverse the downward spiral, and this is why I don't pay too much attention any more to the proposals and counterproposals that are on offer in Europe. I think it is probably too late for that, but certainly by continuing to behave as if this is all about trust, or lack of trust (or, for the more conspiratorially minded, about underhanded actions by speculators hoping to bring the system down), policymakers are building in their own disappointment and extending the crisis.

At this point the only thing that can save the euro is a combination of moves in which the European banks are guaranteed by a credible institution and in which Germany takes steps to stimulate its economy quickly and dramatically. Until Germany is willing to boost domestic spending enough to run a deficit that allows Spain to run a surplus, it is impossible for Spain to repay its debt. This is just basic balance-of-payments arithmetic.

Of course within days of Hollande's complaint that the market didn't trust policymakers, events showed just why the markets would have been anyway wrong to grant policymakers their trust. Here is the Financial Times just four days later:

> *Leaders of the eurozone's four largest economies pledged on Friday to back a €130bn growth package and defend the common currency but remained divided over the credit crisis as Germany continued to resist proposals to issue common debt and use bailout funds to stabilise financial markets.*
>
> *The meeting in Rome was intended to demonstrate a coming together ahead of next week's EU summit, but ended in disagreement over the need for short-term intervention in the markets and how to achieve greater political and financial union.*
>
> *At a joint press conference Angela Merkel, German chancellor, declined to endorse affirmations by all three of her co-heads of government – Italy's Mario Monti, François Hollande of France and Spain's Mariano Rajoy – of the need to use the eurozone's bailout funds to "stabilise financial markets".*

I don't want to be too glib here. I recognize that policymakers are in an extremely difficult position and that there is no longer any easy solution, but railing at the markets rather than trying to understand why they are doing what they do (which anyway makes them far more rational than if they responded to the pronouncements coming out of Brussels) is counterproductive. In fact this kind of pouting is just a part of the self-reinforcing downward spiral that I have described many times before. Policymakers are complaining that economic agents are behaving in ways that reinforce the crisis, even as they do the very same thing.

Given all the excitement over the speed of the deterioration in European markets, I suppose we are going to see urgent new measures announced and a temporary respite in the crisis, but ultimately I think this will be little more than a blip on the way to sovereign debt restructuring and the break-up of the euro. Nothing has changed fundamentally in Europe in the past few weeks and there is no reason to assume that the crisis is on its way to being resolved.

MICHAEL PETTIS / **LINK**

German magazine Der Spiegel dropped a bombshell this morning in an article which is for now available only in German. My German is quite decent. Here's... my translation:

> *Greece could go bankrupt as early as September. Spiegel has obtained information that the IMF told the Brussels leadership it would not make more money available for help to Greece. [..]*
>
> *At the moment the EC, ECB and IMF troika is investigating to what extent the country lives up to its reform obligations. This much is already certain: the government in Athens will not be able to bring down its debt load to about 120% of GDP by 2020.*
>
> *The troika estimates that giving Greece more time to achieve its goals would cost an additional €10 billion-€50 billion. Many eurozone governments, however, are no longer prepared to shoulder new Greek burdens. Moreover, countries like Holland and Finland have made their help contingent on IMF participation.*
>
> *Meanwhile, a Greek departure from the eurozone is seen as manageable in eurozone countries. In order to limit the risk of contagion, governments want to wait for the new ESM emergency fund to start. Which can't happen before the German constitutional court delivers its verdict on September 12.*
>
> *To help Greece survive the month of August, the ECB could jump in one last time. Athens must pay back €3.8 billion by August 20. The solution could be a kind of circular deal, in which eurozone central banks take over credit payments. Greece could issue new short-term bonds and sell them to Greek banks. They could then submit them to the Greek central bank as collateral for new emergency help.*

"... getting rid of Greece will be merely the first step in dissolving the entire eurozone. The rest of the dominos can then fall in rapid succession"

It'll be a lot of fun seeing the IMF, and European leaders, try to deny the article and its implications. From what I understand, they want to wait until the ESM is effective, and then dump Greece. The article may trump any such intentions. Some things only work in secret, and once Pandora's box is open, they no longer do.

I still think it would be curious that the ESM, supposedly good for €700 billion or so (if not more), would be used to "save" Spain and perhaps Italy, but not Greece. For countries like Portugal and Ireland, dumping Greece would mean they need to get very nervous about being the next one thrown under the wheels and off the back end of the wagon.

The message might become that any and all reform and austerity measures demanded must be adhered to very strictly or else. Politicians in these other "borderline" countries might go along with it all, but will the people? Do the Irish really enjoy the idea of being strangled into submission? And will Spain really be "saved" once real debt numbers are known?

It seems far more likely that getting rid of Greece will be merely the first step in dissolving the entire eurozone. The rest of the dominos can then fall in rapid succession.

AUTOMATIC EARTH (VIA MISH) / **LINK**

Greece is in a "Great Depression" similar to the American one in the 1930s, the country's Prime Minister Antonis Samaras told former US President Bill Clinton on Sunday.

Mr Samaras's comments come two days before a team of Greece's debt inspectors arrive in Athens to push for further austerity measures if the debt-laden country wants to qualify for further rescue payments and avoid a chaotic default.

Athens wants to soften the terms of a €130bn euro bailout agreed last March with the European Union and the International Monetary Fund, to soften their impact on an economy going through its worst post-war recession.

Greek GDP is expected by the end of this to have shrunk by about a fifth in five consecutive years of recession since 2008, hammered by tax hikes, spending cuts and wage reductions required by two EU/IMF bailouts. Unemployment climbed to a record 22.6pc in the first quarter.

"You had the Great Depression in the United States," Samaras told Clinton, who was visiting Greece as part of a delegation of Greek-American businessmen. "This is exactly what we're going through in Greece - it's our version of the Great Depression."

Athens must reduce its budget deficit below 3pc of GDP by the end of 2014, from 9.3pc of GDP in 2011 - requiring almost another €12bn euros in cuts and higher taxes on top of the 17 billion successive governments have cut from the budget shortfall.

"... Officials have already indicated there would be a shortfall on the current bailout. How much is likely to depend on the extent by much Greece misses its fiscal targets and the extent of support needed to keep its major banks afloat"

Greece wants its lenders to give it two more years to achieve the budget goal to avoid an even deeper economic slump but its lenders have opposed the idea because it would imply an even bigger financial aid to the country.

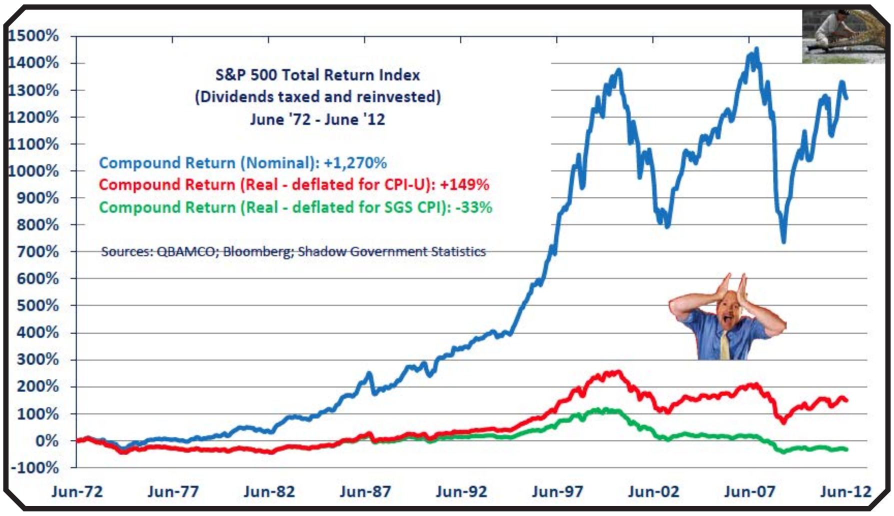
Highlighting growing frustration with Athens, German magazine "Der Spiegel" reported on Sunday, without citing sources, that the IMF may not take part in any additional financing for Greece.

The German and Greek finance ministries declined to comment on the report, which suggested additional support required for Athens could range from €10-50bn euros.

Officials have already indicated there would be a shortfall on the current bailout. How much is likely to depend on the extent by much Greece misses its fiscal targets and the extent of support needed to keep its major banks afloat.

The inspection team of the international "troika" of the EU, the IMF and the ECB will focus on the €11.7bn of spending cuts Athens needs to take in 2013 and 2014.

★ ★ ★ *UK DAILY TELEGRAPH* / **LINK**



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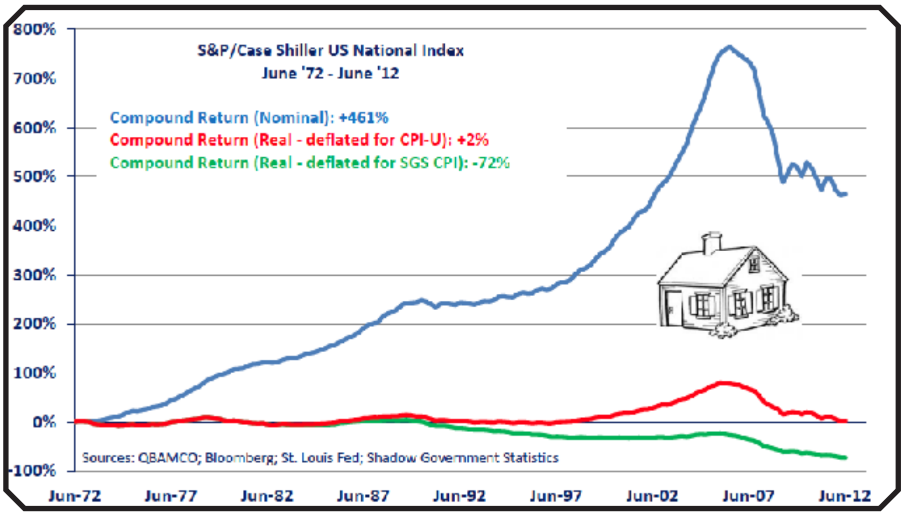

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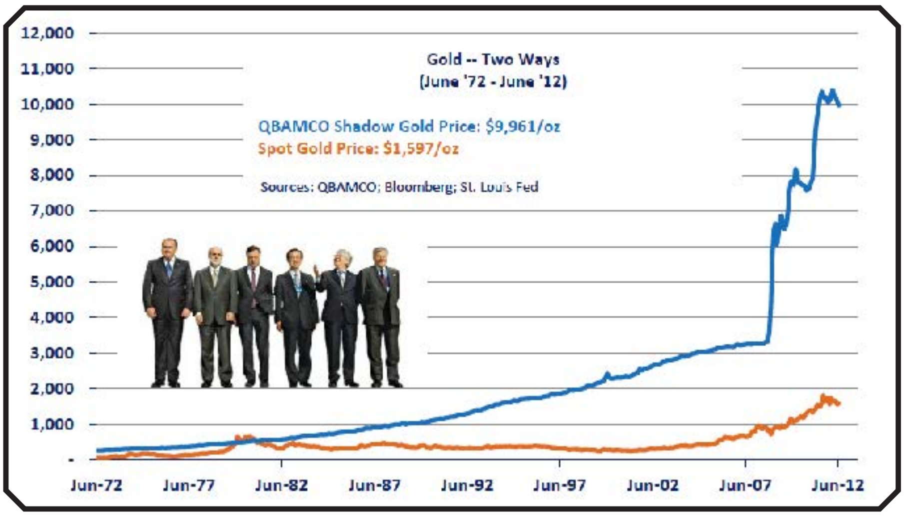


SOURCE: QBAMCO

My friends at QBAMCO

are back and this time they're recommending an allocation to 'treasure':

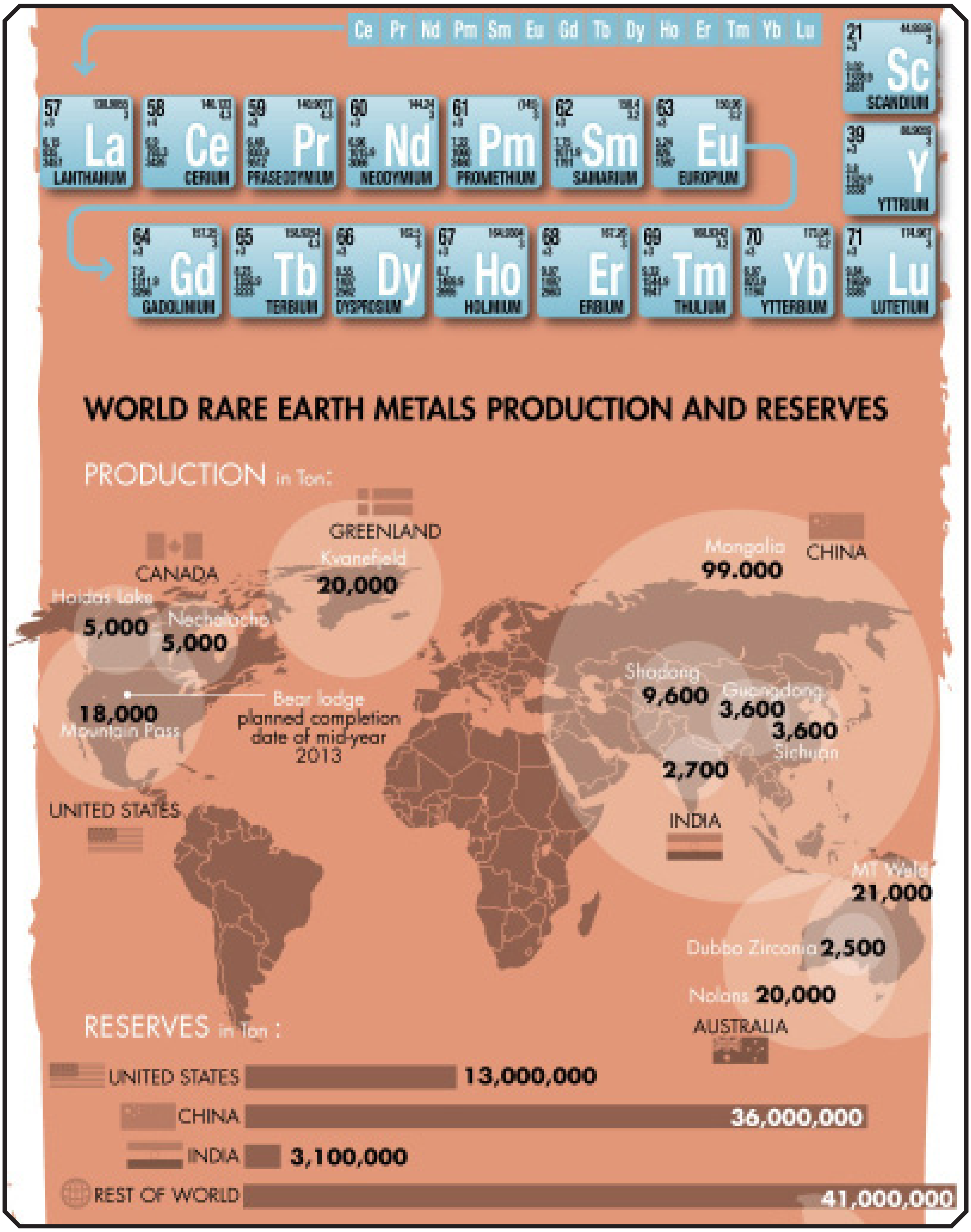
For savers, the ultimate question is (or should be): "where should one place current purchasing power with the objective of maintaining it without risk?" For investors: "where should one allocate current purchasing with the objective of increasing it commensurate with prudent risk?" We believe the greatly overleveraged nature of global public and private sector balance sheets currently suggests the acknowledgement of substantial ongoing currency dilution (base money inflation-induced deleveraging) as the driver of future asset valuation. In such an environment we believe the optimal risk-adjusted play is to allocate capital towards treasure.

Treasure comes in many forms including fine art, rare property and, of course, gold. (We understand some enterprising wine marketers promote a return to "SWAG" – silver, wine, art and gold – though we would categorize wine more as a consumable commodity.) Treasure does not need to have any functional utility. The all-important common characteristics of treasure are scarcity and ongoing demand. It is simply, quite simply really, a sanctuary for purchasing power during a period of currency dilution. The more currency in existence, the more currency chases scarce items.

As always, there is plenty more wonderful analysis in Paul and Lee's latest piece which you can find [HERE]

CLICK TO ENLARGE (via Zerohedge) SOURCE: GRESHAM'S LAW

Everything you ever wanted to know about rare -earth metals. Seriously.



CLICK TO ENLARGE

SOURCE: BUSINESS INSIDER

CLICK TO LISTEN

At the risk of turning this particular page of Things That Make You Go Hmmm..... into the Nigel Farage show, here is another interview with one of the only European politicians speaking rationally about Europe's woes.

Spain's banks, Italy's chances of leaving the Euro, "that idiot Hollande" and much, much more.

Always worth listening to...

Jim Puplava interviews Bert Dohmen of The Wellington Letter. Bert discusses major economic issues not covered in the presidential campaign, and sees the Libor scandal getting much bigger. He also mentions one of his most interesting charts at the moment represents sovereign bond yields, especially Japan and Germany...

CLICK TO LISTEN

CLICK TO WATCH

Oscar-winning director of Inside Job, Charles Ferguson, talks to Lauren Lyster of Capital Account about the financial landscape in the wake of the 2008 financial crisis.

CLICK TO SEE THE
FULL MERKEL JACKETS

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Grant Williams

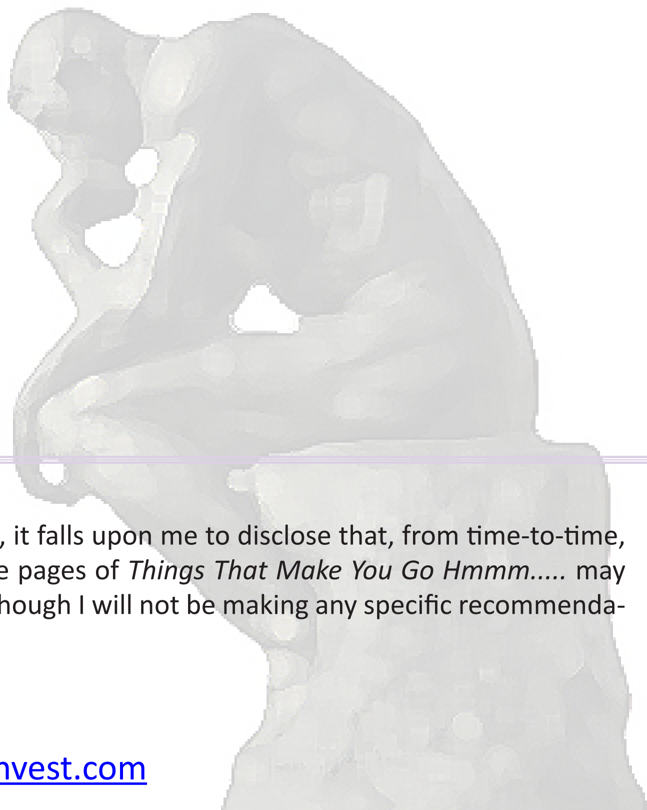
Grant Williams is a portfolio and strategy advisor to Vulpes Investment Management in Singapore - a hedge fund running $200million of largely partners' capital across multiple strategies.

In 2012, all Vulpes funds will be opened to outside investors.

Grant has 26 years of experience in finance on the Asian, Australian, European and US markets and has held senior positions at several international investment houses.

Grant has been writing 'Things That Make You Go Hmmm.....' for the last three years.

For more information on Vulpes please visit www.vulpesinvest.com



As a result of my role at Vulpes Investment Management, it falls upon me to disclose that, from time-to-time, the views I express and/or the commentary I write in the pages of *Things That Make You Go Hmmm.....* may reflect the positioning of one or all of the Vulpes funds - though I will not be making any specific recommendations in this publication.

Grant

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