THINGS THAT MAKE YOU GO Hmmm...

A walk around the fringes of finance

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"I have always found the word 'Europe' on the lips of those who wanted something from others which they dared not demand in their own names!"

– GERMAN CHANCELLOR OTTO VON BISMARCK, *1880*

"The fusion (of economic functions) would compel nations to fuse their sovereignty into that of a single European State"

– Jean Monnet, *founder of the European Movement, April 3, 1952*

"A European currency will lead to member-nations transferring their sovereignty over financial and wage policies as well as in monetary affairs... It is an illusion to think that States can hold on to their autonomy over taxation policies."

– Bundesbank President Hans Tietmeyer, *1991*

In 1801, amidst the turmoil of the French Revolutionary Wars, Britain's naval superiority over France was being undermined by the curiously named League of Armed Neutrality - which comprised Russian, Danish, Swedish, Prussian and Norwegian forces - all of whom were attempting to facilitate free trade with the French.

Britain knew that, if they didn't break up the League before the Baltic Sea thawed - releasing the Russian Fleet from its bases at Kronstadt and Reval (now Talinn) - the 123 ships-of-the-line that would be amassed against them would be too potent a force for them to counter so they dispatched the British Fleet, under the command of 61 year-old Admiral Sir Hyde Parker (no, he didn't give his name to the Royal Park in Central London) to go to Copenhagen and detach Denmark from the League by 'amicable arrangement or by actual hostilities', to be followed by 'an immediate and vigorous attack' on the Russians at Reval and then Kronstadt.

Perhaps unsurprisingly, having just taken an 18 year-old wife, Parker was somewhat reluctant to put to sea but eventually, no doubt with a heavy heart, both he and the entire fleet left the safety of Great Yarmouth on March 12.

Fortunately for Parker, his Vice-Admiral was one Horatio Nelson who, though hardly in the good books of the admiralty due to his scandalous private life, possessed one of Britain's finest naval brains.

The Battle of Copenhagen commenced on the morning of April 1st 1801 and, by 1pm, the fighting was ferocious with heavy casualties on both sides. Nelson was in the thick of the action and coming under heavy fire.

From his position to the North, Parker could see little of the battle owing to gun smoke but it was plain that Nelson's ships were in trouble:

> *(Wikipedia): Thinking that Nelson might have fought to a stand-still but be unable to retreat without orders (the Articles of War demanded that all ranks do their utmost against the enemy in battle), at 1:30pm Parker told his flag captain, "I will make the signal of recall for Nelson's sake. If he is in condition to continue the action, he will disregard it; if he is not, it will be an excuse for his retreat and no blame can be imputed to him."*

It was at this point that Nelson found yet another way to enter history - this time not through his exploits per se, but through idiom:

> *(Horatio Nelson - Pocock): Nelson ordered that the signal be acknowledged, but not repeated. He turned to his flag Captain, Foley, and said "You know, Foley, I only have one eye — I have the right to be blind sometimes," and then, holding his telescope to his blind eye, said "I really do not see the signal!"*

And so, in the midst of a pitched naval battle, the first blind eye was turned.

Curiously enough, in British legal parlance, the turning of a blind eye is known as 'Nelsonian Knowledge':

(Twinsectra Limited v Yardley and Others): It is dishonest for a man deliberately to shut his eyes to facts which he would prefer not to know. If he does so, he is taken to have actual knowledge of the facts to which he shut his eyes. Such knowledge has been described as "Nelsonian knowledge", meaning knowledge which is attributed to a person as a consequence of his "wilful blindness" or (as American lawyers describe it) "contrived ignorance". But a person's failure through negligence to make inquiry is insufficient to enable knowledge to be attributed to him

Wilful blindness? Contrived ignorance? 'Where could we POSSIBLY be going with this?' I hear you ask. Well, gentle reader, follow me from the chaos and confusion of a Baltic battlefield in 1801 to the more peaceful confines of Washington, DC in 1982.

In August of that year, as interest rates in America increased, Mexico's finance minister, Jesus Silva-Herzog, declared that his country would no longer be able to service their debts, instantly plunging the continent - and the American banks who had loaned billions to South America - into the abyss.

Then-Chairman of the Federal Reserve, Paul Volcker decided to rely on Nelsonian Knowledge and, effectively, cast a blind eye on the now-insolvent US banks, reasoning that they were not insolvent, but rather suffering a temporary squeeze. Volcker decided that time was the answer and that to hold the troubled banks to the letter of those pesky accounting laws would bankrupt them and, naturally, cause what would one day become known as a 'Financial Crisis':

Volcker gambled, and won: The US banks indeed took the Latin American debt hit, but grew their way out of their hole. None of the large American banks were pushed to bankruptcy in 1982, and by 1983, the worst had passed. By 1984, the biggest chunks of Latin American debt had either been renegotiated or written off—so far as the American banking system was concerned, the crisis was over, with not a single name bank going broke. And most importantly, stability and calm reigning all the while.

Phew! Close call.

In November of 2007, just as the perilous state of the world's finances began to become apparent to others besides those who would go on to become household names in the investment industry, the Financial Accounting Standards Board (FASB) accounting standard FAS 157 took effect.

FAS 157 was known as the fair-value measurement standard and it laid out guidelines for how companies should go about the process of ascribing market, or fair values to their assets. The rules didn't apply to real estate or plant and equipment that were normally depreciated on a specific schedule, but they did apply to assets owned by companies that were somewhat tricky to price due to there not being an active market with which to do so. The biggest changes that FAS 157 introduced were to be found in the guidelines which realigned the process of 'marking-to-model'.

The Wall Street Journal takes up the story:

(November 2007): Level 1 is assets that have observable market prices. Think a stock traded on the NYSE. Level 2 assets don't have an observable price, but they have inputs that are based on them. Think an interest-rate swap where its components are observable data points like the price of a 10-year Treasury bond.

Level 3 is for assets where one or more of those inputs don't have observable prices. This is the

> *bucket that has been described as a guesstimate, because it is reliant on management estimates. As things stand now, companies who haven't early adopted FAS 157 don't give this more detailed breakdown to investors. So, one result of FAS 157 is more information.*
>
> *That has prompted investors to pay more attention to the way companies price hard-to-value Level 3 assets. In that sense, FAS 157 isn't forcing companies to write down prices because of the current market turmoil. It is more a case that the new disclosures will cause investors, and regulators, to ask a lot more questions if it looks like a company isn't taking adequate write-downs.*
>
> *One other change is that FAS 157 makes it clearer that companies, if they have to value something using a model, have to think in terms of the value that would result if they were selling, or exiting, the position. In other words, they have to take current market pricing and conditions into account.*

FAS 157 meant that trillions of dollars of derivatives including hundreds of billions of dollars of CDOs that had previously been 'marked-to-model' (valued using in-house proprietary valuation metrics) would have to be valued more assiduously and take into account the current fair market value of those assets and, of course, the 'market' prices of those assets were not faring too well as liquidity dried up and the subprime storm approached America's shores.

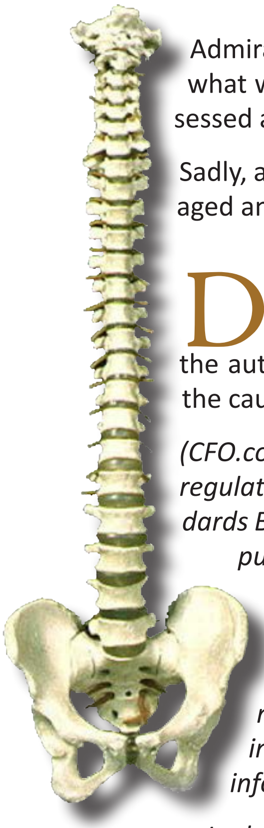
Naturally, there were some fairly loud voices calling for an alternative route to be found - notable amongst them, Stephen Schwarzman, CEO of Blackstone Group:

> *(Dealbook): Some blame the rapacious lenders. Others point to the deadbeat borrowers. But Stephen A. Schwarzman sees another set of culprits behind all the pain in the financial industry: the accountants.*
>
> *That's right, the bean counters.*
>
> *A new accounting rule – "an accounting rule!" – partly explains why the American financial system looks so wobbly these days, he says.*
>
> *Mr. Schwarzman, the co-founder of the private equity giant Blackstone Group, has been espousing this view for weeks over lunches and at cocktail parties around the globe. It's a controversial hypothesis, which others have put forward before, and it has sparked plenty of debate within the industry. But Mr. Schwarzman is convinced that the rule – known as FAS 157 – is forcing bookkeepers to overstate the problems at the nation's largest banks.*
>
> *"From the C.E.O.'s I talk with," Mr. Schwarzman said during an interview on Monday morning, "the rule is accentuating and amplifying potential losses. It's a significant contributing factor."*
>
> *Some of his bigwig pals in finance believe that Wall Street is in much better shape than the balance sheets suggest, Mr. Schwarzman said. The president of Blackstone, Hamilton E. James, goes even further. FAS 157, he said, is not just misleading: "It's dangerous."*
>
> *Mr. Schwarzman and others say FAS 157 is forcing underserved write-offs and wreaking havoc on the financial system. There is even a campaign afoot in Washington to change the rule...*

There! Did you see it? No? Well here it is again:

> *There is even a campaign afoot in Washington to change the rule...*

Yes, the lobbying had begun in earnest to persuade lawmakers that willful blindness would solve the problems that were besetting the balance sheets of financial institutions in the middle of the subprime whirlwind.



Admirably, the idea of suspending mark-to-market accounting was met with a blanket refusal in what would potentially be the last quantifiable piece of proof that anyone on Capitol Hill possessed a backbone...... at least initially.

Sadly, a year later, after Bear Stearns and Lehman had buckled under the weight of highly-leveraged and fatally illiquid assets, Henry Paulson and Ben Bernanke rode to the rescue.

Deep within the bowels of the TARP legislation, not only was the authority given to the SEC to suspend mark-to-market accounting "for any issuer", but it actually gave them the authority to launch a probe into whether mark-to-market accounting was actually one of the causes *OF* the crisis:

(CFO.com): Under the securities laws, the SEC would have the authority to "suspend, by rule, regulation, or order, the application of Statement Number 157 of the Financial Accounting Standards Board for any issuer...if the Commission determines that is necessary or appropriate in the public interest and is consistent with the protection of investors," according to Section 132 of the bill...

Further, Section 133 of the legislation would empower the SEC to launch a study of the effects of 157 on financial institutions, including depository institutions. The study would mull the effects of the standard on bank balance sheets; the impact of fair-value accounting on this year's bank failures; and how mark-to-market affects the quality of financial information provided to investors.

In the study, the SEC would also be obliged to probe how FASB develops accounting standards; whether it's advisable and possible to change the standards; and "alternative accounting standards to those provided in such Statement Number 157.

Fortunately, a couple of months after TARP was passed, Christopher Cox, the then-Chairman of the SEC explained just how important accounting integrity was in a speech to the American Institute of Certified Public Accountants and made it clear that relaxing FAS 157 was not on the agenda:

Accounting standards aren't just another financial rudder to be pulled when the economic ship drifts in the wrong direction. Instead they are the rivets in the hull, and you risk the integrity of the entire economy by removing them.

Well said, Sir. Well said indeed.

Yada, Yada, Yada.... FASB Board Meeting, April 2, 2009:

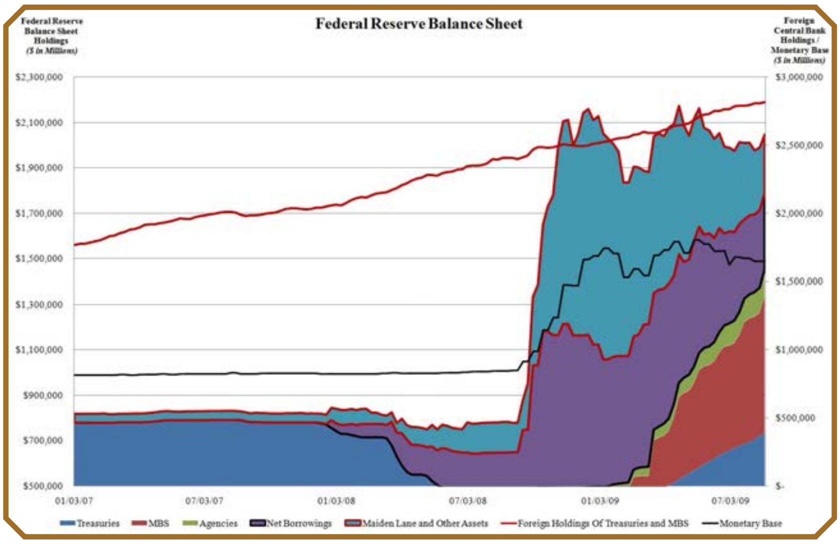
The Board discussed comment letters received on proposed FSP FAS 157-e, Determining Whether a Market Is Not Active and a Transaction Is Not Distressed. In response to comment letters and additional feedback received, the Board decided to make significant revisions to the proposed FSP. The Board decided that the final FSP would:

- *Affirm that the objective of fair value when the market for an asset is not active is the price that would be received to sell the asset in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions (that is, in the inactive market).*

- *Clarify and include additional factors for determining whether there has been a significant decrease in market activity for an asset when the market for that asset is not active.*

- *Eliminate the proposed presumption that all transactions are distressed (not orderly) unless proven otherwise. The FSP will instead require an entity to base its conclusion about whether a transaction was not orderly on the weight of the evidence.*
- *Include an example that provides additional explanation on estimating fair value when the market activity for an asset has declined significantly.*
- *Require an entity to disclose a change in valuation technique (and the related inputs) resulting from the application of the FSP and to quantify its effects, if practicable.*
- *Apply to all fair value measurements when appropriate.*

In essence, FAS 157's mark-to-market provisions for Level III assets were suspended.



CLICK TO ENLARGE

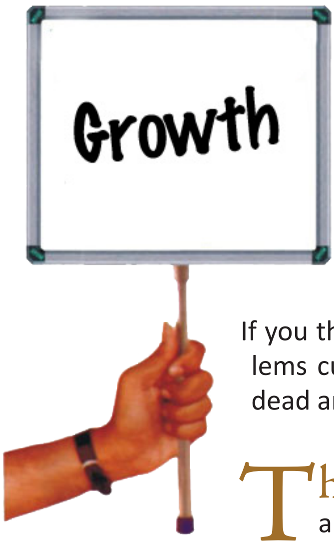
SOURCE: SEEKING ALPHA

Once again, 'contrived ignorance' won the day and banks were left to keep their valuations of many illiquid assets wherever they felt was the appropriate level. Not only that, but there was a new vested interest in keeping the game going, namely, the Federal Reserve which had accumulated billions of dollars of these very same illiquid, mis-marked assets through the pledging of collateral as well as outright purchases.

The chart, left, shows the state of the Fed's balance sheet as at the beginning of April, 2009 when FAS 157 was suspended.

So why, if it worked for Volcker, is it not working now?

Well, if we go back to 1982, we see one of the key points writ large:



... The US banks indeed took the Latin American debt hit, but grew their way out of their hole...

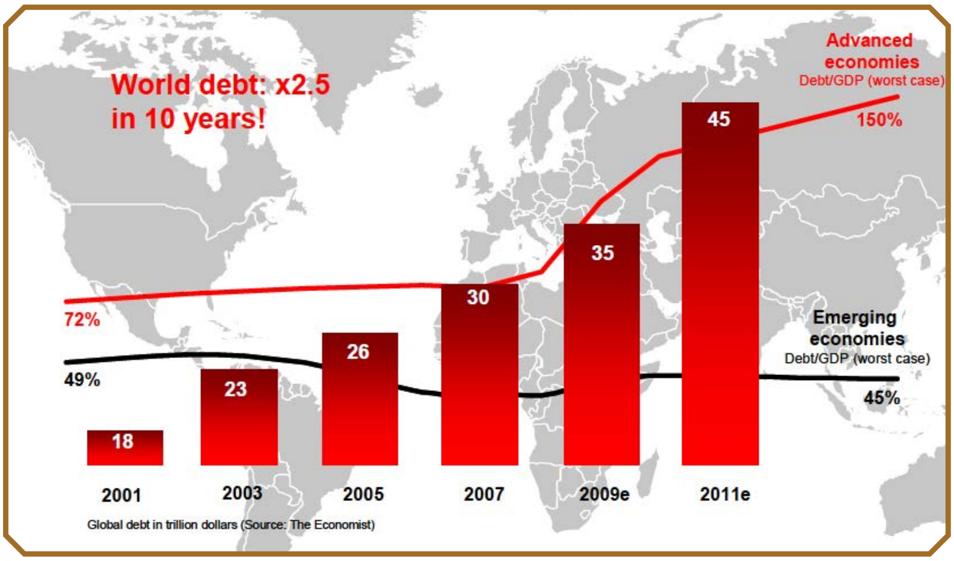
Growth? Paging Growth?

Of course, the other problem that precludes Volcker's strategy from standing a realistic chance of working this time around is the sheer quantum of debt that the world has accumulated both heading into, and as a direct result of the stimulus applied in the aftermath of the 2008 crisis (chart, next page).

But no matter.

If you think, for one second, that the concept of turning a blind eye to the debt problems currently facing the world in general and the banking industry in particular, is dead and buried, then you haven't been paying attention.

This week, after the coordinated intervention of six of the world's Central Banks and the completely coincidental move by the PBOC to lower reserve requirements on the same day, equity markets once again turned a collective blind eye to the



CLICK TO ENLARGE

SOURCE: THE ECONOMIST

problems currently facing the Eurozone.

The massive rush of liquidity achieved its aim and sent stock markets across the globe spiralling like toddlers on a sugar high, as the likelihood that this sudden intervention was necessary to avoid a catastrophe of some sort (rumours abounded of a European bank on the edge of insolvency) was trumped by a mixture of relief and glee. Yes, everybody KNOWS that things are bad; growth is anemic, debt levels are crushing, housing shows no sign of turning around, unemployment is still a problem and banks are, to all intents and purposes, insolvent the world over, but, this whole blind eye thing is a decent-enough tactic heading into year-end.

Interestingly enough, as stocks soared, the sovereign bond market was more sanguine and, whilst yields on troublesome Spanish and Italian 10-year bonds drifted off their highs, they failed to travel as far or as fast as their equity counterparts and this was a troubling sign.

Twenty-Four hours later though, that little problem was addressed in similar fashion as it was revealed - through the old favourite the 'leaked draft' - that EU plans to impose losses on holders of bank debt (who, in turn, are stuffed to the gills with sovereign paper) would have a little Nelsonian Knowledge applied to them too:

> *(Bloomberg): The European Union may exempt bank debt issued before 2013 from proposals forcing investors to take losses at failing lenders, said a person familiar with the plan.*

SOURCE: BLOOMBERG

> *Excluding the debt is designed to prevent lenders' funding costs from rising, said the person, who declined to be identified because the discussions are private. The exemption could be extended if banks struggle to raise funds, the person said. The law would need approval from national governments and the European Parliament before taking effect...*

> *Short-term debt, with a less than one-year maturity, and derivatives should only be written down by regulators as a last resort if losses from longer-term*

debt aren't "sufficient to restore the capital of the institution and enable it to operate as a going concern," according to the draft.

You really have to hand it to these people. It's simplistic genius.

Step 1: Show strength by warning that investors will have to share the pain in the form of haircuts and writedowns

Step 2: Delay the implementation of that pain for two years

Step 3: Make the start date of that pain flexible

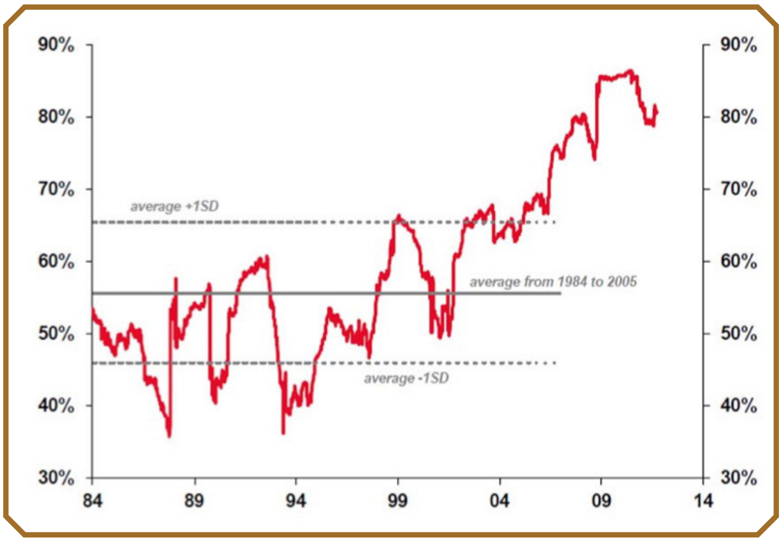
Step 4: Ensure that any writedowns in derivatives are only taken as a 'last resort'

Step 5: Fail to clarify exactly what Step 4 actually means

All that's left now is to leak the draft and.... Boom!

In the chart on the previous page, we can see Italian, Spanish and French 10-year yields all falling significantly in the wake of the EU 'leak' - though Portugal's debt remains strangely elevated...

Portugal. You remember? It was the 'P' in 'PIIGS'? No? Oh well, never mind. There's a reminder on page 20 to help refresh your memory.



SOURCE: SOCIETE GENERALE

So to sum up.

As well as highly correlated markets (see the chart, left, courtesy of Soc Gen which demonstrates that correlation amongst leading equity markets is at nosebleed levels), we have markets in which the various vested interests are almost completely aligned, we have a brand new Coalition of The Willing (although this one was infinitely simpler to put together than its predecessor) which involves the vast majority of investors, governments, Central Banks and regulatory bodies the world over and, amongst that coalition, we have a common willingness to turn a blind eye to the realities facing the world; namely, too much debt and too few ways to pay it off. After all, a LOT of money would be lost and a lot of banks would go to the wall should the reality of the situation actually be faced.

Only the 'Evil Speculators' and 'Short-Sellers' find themselves both out of alignment with the herd and unwilling to lift the telescope to a failing eye - but then they're all just evil, right?

Turning a blind eye is one thing. Willfully ignoring the truth is another but breaking a promise is an altogether different proposition. This week, in a breathtaking example of just how deeply-ingrained the principle of contrived ignorance is, French President Nicolas Sarkozy stepped to the microphone and made a promise that had basically already been broken when he pledged that no European country will default. A polite audience declined to mention the G-word - instead choosing to offer some rather half-hearted applause. Nelsonian markets were more than willing to take him at his word though.

But then, right on cue, just as the euphoria was getting a little out of hand, Angela Merkel herself poured the now customary cold water on proceedings when she dampened the spirits of those still basking in the post-oratory glow of Sarkozy's speech in an address that had the Reuters and Bloomberg headline writers' fingers cramping like Joan Benoit in 1984:

> **MERKEL SAYS EURO BONDS NOT POSSIBLE WITHOUT FULL FISCAL UNION*
>
> **MERKEL SAYS EURO BONDS NOT CURRENTLY POSSIBLE IN CONSTITUTION*
>
> **GERMANY'S MERKEL SAYS EURO DEBT CRISIS CANNOT BE RESOLVED IN ONE FELL SWOOP*
>
> ** RTRS-GERMANY'S MERKEL SAYS EURO CRISIS RESOLUTION WILL TAKE YEARS*
>
> ** RTRS-MERKEL SAYS MUST DEFEND CREDIBILITY OF EUROPEAN COURTS AND CENTRAL BANKS*
>
> ** RTRS-MERKEL SAYS TASK OF ECB IS DIFFERENT FROM THAT OF FED IN UNITED STATES*
>
> *OR BANK OF ENGLAND*
>
> ** RTRS-MERKEL SAYS EUROPEAN POLITICIANS HAVE LOST CREDIBILITY BY FAILING TO IMPLEMENT STABILITY PACT RULES*
>
> ** RTRS-MERKEL SAYS EUROPE MUST DO WHAT IS POSSIBLE WITH THE EFSF AND NOT TALK IT DOWN*
>
> ** RTRS-MERKEL SAYS EUROPEAN COMMISSION AND COURTS MUST HAVE BIGGER ROLE WITHOUT*
>
> **GERMAN PARLIAMENT LOSING BUDGET CONTROL*

So here we are. A week away from another do-or-die summit meeting, only this time it feels as though things may just be reaching the point-of-no-return. The markets certainly feel it. We can only hope that those sequestered away in Brussels next weekend feel it too.

One can't help but think that the days of willful ignorance are coming to a close. Maybe the tipping point will finally be reached in the Last Chance Saloon for European leaders in Brussels next weekend (though surely they can come up with SOMETHING to appease markets that are so desperate to believe in solutions that they initially salivated over a plan to have an empty box that would magically be filled with money a few weeks ago), maybe it will be a bond auction somewhere before the end of the year or maybe the game can even be kept going into 2012 - that would certainly suit the largest percentage of those involved - but come to an end it must. And sooner rather than later I think.

My guess? Well let's just say that I remain skeptical until convinced otherwise. If nothing else, I have found it saves me a lot of time.

In 1805, four years after the Battle of Copenhagen, Nelson was commanding the British Fleet at the Battle Of Trafalgar from the deck of *HMS Victory* when a marksman from the French ship *Redoutable* took aim and, from a range of 50 feet, hit the British Admiral with a single shot.

The bullet entered Nelson's left shoulder, pierced his lung and came to rest at the base of his spine.

As the captain of the Victory, Thomas Hardy, rushed to Nelson's side, he looked up and smiled:

> *"Hardy, I do believe they have done it at last... my backbone is shot through"*

This week's Things That Make You Go Hmmm..... is packed full of goodness, beginning with a look at the amazing amount of secret cash funneled to banks by the Fed in 2008 and a timely warning from the Bank of Korea as hey release an update on their gold holdings.

From there, we visit Europe where, while Germans remain 'unflappable' and 'oblivious' to the dangers surrounding the EU (depending on who you listen to), Mervyn King flashes the Bat Signal, Sarkozy makes that promise we spoke about earlier and the architect of the Euro, Jacques Delors, seems to feel a little distance is required.

Meanwhile, Portugal raids the piggy bank, Wolfgang Schauble (I was reliably informed by a German fiend this week that it's "Schauble as in foible" which I thought was a good way to remember the correct pronunciation), tried to kick the can 20 YEARS down the road and John Mauldin decides that Bazookas are so 2008 and it's time to bring out the Howitzers.

We see a reverse merger in all its glory as a Chinese cave gets listed on the NYSE, Jeff Clark revisits previous gold stock manias and the Lex column has some fascinating figures on the airline industry in the wake of American Airlines' recent bankruptcy (thanks Steve!).

Our charts take a look at Euro short positions, Chinese PMI, the previous Fed swap lines and 4 Bad Bears. Barry Ritholtz shows us a few tips and tricks for using Google more effectively and we have a huge slate of excellent interviews for you to listen to featuring such luminaries as Marc Faber, Seth Klarman, Chris Martenson, Kyle Bass, Nigel Farage, Robert Shiller and even some random guy from Singapore who looks a bit like me.

That's all for now. Next week's Things That Make You Go Hmmm..... may be a little shorter than usual as I will be in Kuala Lumpur but we'll see how things go. I will leave you with the words of two men.

First up, Felipe Gonzalez, then-Prime Minister of Spain, who had this to say in May 1998:

> *"The single currency is the greatest abandonment of sovereignty since the foundation of the European Community… It is a decision of an essentially political character… We need this united Europe… We must never forget that the euro is an instrument for this project."*

And finally, then-Opposition leader in Germany, Gerhard Schröder, who two months earlier expressed his own views on the Euro:

> *"The euro is a sickly premature infant, the result of an over-hasty monetary union"*

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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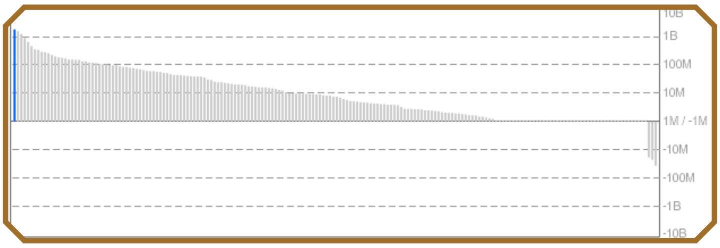
Contents

04 December 2011

The Federal Reserve and the big banks fought for more than two years to keep details of the largest bailout in U.S. history a secret. Now, the rest of the world can see what it was missing.

The Fed didn't tell anyone which banks were in trouble so deep they required a combined $1.2 trillion on Dec. 5, 2008, their single neediest day. Bankers didn't mention that they took tens of billions of dollars in emergency loans at the same time they were assuring investors their firms were healthy. And no one calculated until now that banks reaped an estimated $13 billion of income by taking advantage of the Fed's below-market rates, Bloomberg Markets magazine reports in its January issue.



SOURCE: BLOOMBERG

Saved by the bailout, bankers lobbied against government regulations, a job made easier by the Fed, which never disclosed the details of the rescue to lawmakers even as Congress doled out more money and debated new rules aimed at preventing the next collapse.

A fresh narrative of the financial crisis of 2007 to 2009 emerges from 29,000 pages of Fed documents obtained under the Freedom of Information Act and central bank records of more than 21,000 transactions. While Fed officials say that almost all of the loans were repaid and there have been no losses, details suggest taxpayers paid a price beyond dollars as the secret funding helped preserve a broken status quo and enabled the biggest banks to grow even bigger.

"When you see the dollars the banks got, it's hard to make the case these were successful institutions," says Sherrod Brown, a Democratic Senator from Ohio who in 2010 introduced an unsuccessful bill to limit bank size. "This is an issue that can unite the Tea Party and Occupy Wall Street. There are lawmakers in both parties who would change their votes now."

The size of the bailout came to light after Bloomberg LP, the parent of Bloomberg News, won a court case against the Fed and a group of the biggest U.S. banks called Clearing House Association LLC to force lending details into the open.

The Fed, headed by Chairman Ben S. Bernanke, argued that revealing borrower details would create a stigma -- investors and counterparties would shun firms that used the central bank as lender of last resort -- and that needy institutions would be reluctant to borrow in the next crisis. Clearing House Association fought Bloomberg's lawsuit up to the U.S. Supreme Court, which declined to hear the banks' appeal in March 2011.

The amount of money the central bank parceled out was surprising even to Gary H. Stern, president of the Federal Reserve Bank of Minneapolis from 1985 to 2009, who says he "wasn't aware of the magnitude." It dwarfed the Treasury Department's better-known $700 billion Troubled Asset Relief Program, or TARP. Add up guarantees and lending limits, and the Fed had committed $7.77 trillion as of March 2009 to rescuing the financial system, more than half the value of everything produced in the U.S. that year.

★ ★ ★ *BLOOMBERG* / **LINK**

The Bank of Korea, which controls the world's eighth-biggest foreign-exchange reserves, boosted gold holdings for the second time this year as investors sought safer assets amid Europe's debt crisis.

The central bank bought 15 metric tons last month, boosting holdings to 54.4 tons, which is equivalent to 0.7 percent of its total reserves, Lee Jung, head of the investment strategy team at the bank's Reserve Management Group, told reporters in Seoul.

Central banks are expanding reserves for the first time in a generation as the precious metal is in the 11th year of a bull market. Purchases of as much as 450 tons in 2011 may be repeated next year as Asian nations and emerging economies diversify their reserves, UBS AG said Nov. 30.

"... The World Gold Council said central bank purchases in the third quarter jumped more than sixfold to 148.4 tons and forecast buying for the year would reach as much as 450 tons.

"They want to diversify," Gavin Wendt, the founder and senior resource analyst at Sydney-based Mine Life Pty., said by phone today. Investors and "central banks are pretty nervous about all currencies, not just the U.S. dollar."

Gold has risen about 23 percent this year, reaching an all- time high of $1,921.15 an ounce on Sept. 6 and beating equities, treasuries and other commodities. The U.S. dollar, which typically moves inversely to bullion, is down about 1 percent this year against a basket of six major currencies.

"We're buying gold to improve profitability against risks," the Korean bank's Lee said. "This is part of our mid- and long-term strategy to diversify our portfolio and enhance efficiency of asset management."

The Bank of Korea purchased 25 tons over a one-month period from June to July, the first purchases in more than a decade, joining other emerging-market countries in expanding gold holdings to guard against volatile currency movements and to diversify portfolios.

The World Gold Council said central bank purchases in the third quarter jumped more than sixfold to 148.4 tons and forecast buying for the year would reach as much as 450 tons. Russia, Kazakhstan, Colombia, Belarus and Mexico added a combined 25.7 tons of gold to reserves in October, according to data on the International Monetary Fund's website.

Holdings in exchange-traded products reached a record 2,356 tons on Nov. 30 and were at 2,355.5 tons yesterday, according to Bloomberg data compiled from 10 providers.

South Korea's foreign-exchange reserves fell by $2.35 billion from October to $308.6 billion at the end of November as the euro weakened against the dollar, the central bank said in a statement today.

BLOOMBERG / **LINK**

The euro is teetering, neighboring countries are complaining about pressure from Berlin, and the German chancellor is rushing from one crisis summit to another. Typically more anxious, the Germans appear to be strangely unperturbed amid the furor. What is the root of this new serenity?

Berlin -- The moment of truth is drawing near. Next week the chancellor is travelling to Brussels for yet another crisis summit. Together with the other European heads of government, Angela Merkel wants to finally rescue the euro. She must rescue it.

Everything is at stake. The final game for the euro and for Europe is in full swing. Every day that the debt crisis continues to come to a head, fear is growing that all efforts will be for naught, and that the breakup of the euro is unpreventable. The fear is growing in the financial markets, in the halls of power in Paris, Rome and Madrid, and in Berlin's chancellery.

But among Germans, the fear appears not to be growing.

There is, of course, the German angst, of which the Anglo-Saxons and the Americans like to talk about. It is so legendary that it is almost proverbial. Haven't the Germans always reacted despondently or even hysterically as soon as there is a threat of potential disaster? In this part of the world, the worries over climate change are especially pronounced; we get stirred up by health concerns like E.coli outbreaks and the swine flu; and we abandon nuclear energy immediately after in far away Japan a tsunami leads to a nuclear catastrophe. Should all Germans be in a panic because the euro could soon be history?

"... Has the German angst slowly evolved into a German lässigkeit, or nonchalance, as Roger Cohen, the long-time correspondent of the New York Times, attests regarding the financial crisis? No, Germans are not blind to the extent of the debt crisis...

They aren't, at least noticeably. Those walking through the Christmas markets and shopping malls this season will notice little worry or fear. Families and friends ask skeptically what will happen to their money, but in the next sentence talk about what their Christmas wishes are. And according to a poll conducted by the network ARD, a majority (55 percent) say they are not personally affected by the crisis. A vague uneasiness seems to stand opposite an unshakable tranquillity.

Has the German angst slowly evolved into a German lässigkeit, or nonchalance, as Roger Cohen, the long-time correspondent of the New York Times, attests regarding the financial crisis?

No, Germans are not blind to the extent of the debt crisis. On the contrary, a disillusionment has grown in light of the failure to implement sweeping rescue efforts. The vast majority (84 percent) even thinks that the worst is yet to come, a record level in the new ARD poll. A basic trust, that can really calm the situation for international policies, was lost among the population long ago.

As bad as the big picture is, and as large as the distrust is in the competence and self-assertion of the states against the financial markets, people still seem to feel like they are in good hands with the chancellor. Angela Merkel's approval ratings have gone up during the crisis, polls show. In a domestic Infratest poll, Merkel crossed the 50-percent-mark. One in two respondents found that Merkel has handled the crisis "correctly and decisively." In a recent poll conducted by the ZDF network, almost two-thirds of those surveyed rated Merkel's crisis management positively.

★ ★ ★ *DER SPIEGEL* / **LINK**

Extraordinarily serious and threatening...perilous – these are not the sort of words a central banker normally uses, yet every time the Governor of the Bank of England, Sir Mervyn King, appears in public these days, he ramps up the language of crisis still further.

Regrettably, he's only telling it as it is. We stand on the brink, apparently incapable of pulling back.

Events on the Continent have come to feel much like the drift into war. There is a feeling of powerless inevitability about it. Crisis summits come and go with no resolution in sight, but there's always the next one to set the world to rights, though we all know that in truth it won't.

Markets and politicians cling to the belief that in the end, the single currency won't be allowed to fail. The economic and financial consequences are thought too awful to allow for such an outcome. Yet as long as the eurozone's creditor nations continue to adopt their "can pay, but won't pay" approach to the crisis, it is hard to see how it can end in any other way.

Europe is already back in the midst of a credit crunch, with its banks largely frozen out of wholesale funding; eurozone banks have become so risk averse that they prefer to lodge their excess liquidity with the European Central Bank than lend to each other. Across the Continent, banks are shrinking their credit.

How close are UK banks to being similarly engulfed? Sir Mervyn trod a fine line at his press conference on Thursday between warning banks to prepare for the worst on the one hand, and on the other trying to play down fears of a renewed funding crisis.

For now, the UK banking system is mercifully not quite as stressed as its European counterparts. Thanks to earlier Government bailouts and other sources of new equity, UK banks remain relatively well capitalised. They have also already financed themselves with term lending through to the end of this year, so they don't face the same immediate threat from the funding drought.

Yet they surely cannot remain immune for much longer. Thursday's Financial Stability Report from the Bank of England warns that issuance of term funding has been very weak since May.

Worryingly, UK banks have £140bn of it due to mature in 2012, with most of that concentrated in the first half of the year. If the Bank of England fails to provide alternative liquidity, UK banks will soon be struggling.

★ ★ ★ *JEREMY WARNER* / **LINK**

Britain orchestrated this week's bold move by central banks to stave off a cash crunch in global markets, helping drive a plan that began to take shape around 10 days ago.

For months, central bankers have tracked with growing concern how the deleveraging among European banks, hurt by the tumbling value of euro-zone debt, was hurting global funding as banks sold off assets and brought cash back home.

"... Bank of England Governor Mervyn King said he called the meetings that led to the decision by six of the world's major central banks to cut dollar funding rates to keep money flowing through the world's financial arteries

Indeed, some central banks had urged the Federal Reserve for some months to put in place cheaper dollar funding, but the Fed had resisted, said a source with direct knowledge of this week's deal.

Last week, conditions grew particularly acute after a German bond auction failed to attract enough buyers. The Federal Reserve and the European Central Bank started serious discussions around the middle of last week, banking officials in Europe and the United States told Reuters.

Bank of England Governor Mervyn King said he called the meetings that led to the decision by six of the world's major central banks to cut dollar funding rates to keep money flowing through the world's financial arteries.

"It was the result of conversations which I initiated as chairman of what used to be known as the G10 governors, now the economic consultative committee, among a limited number of central banks," he told a news conference in London on Thursday.

The decision by the U.S. Federal Reserve, the European Central Bank and the central banks of Japan, Canada, Britain and Switzerland to provide cheaper dollar funding for banks eased credit strains and provided a fillip to market sentiment.

Short-term funding costs eased on Thursday for the first time since July 22, when the latest phase of the euro-zone crisis took hold after European Union leaders failed to lay out detailed plans for a strong bailout fund.

Several banking officials said there was no specific trigger for the action, and specifically denied rumors that a European bank was on the brink of collapse. Instead, they characterized the action as the culmination of many weeks of worry as financial strains had built.

"Non-Europeans are not just complaining about the lack of action by Europeans but starting to feel more strongly that Europe can't contain this problem by itself," said a source briefed on the central bank discussions. "That sense might have led to this swap deal."

Even emerging markets, notably Eastern Europe and Asia, were feeling the pinch as European banks pulled back lending operations and put assets on the block, two banking officials said. Local banks that took up the slack had less access to dollar funding for their clients, bank officials said.

In the announcement, the six central banks said they also were ready to make money available in currencies other than their own, if necessary.

"They wanted to ensure that a dollar crunch did not brake economies in Asia, in the United States," said Austrian Finance Minister Maria Fekter.

REUTERS / **LINK**

Nicolas Sarkozy pledged that no other eurozone country will be allowed to default in a passionate speech aimed at shoring up Europe's shattered markets.

The French president admitted that European infighting had led to markets and consumers being "paralysed by fear" and vowed to stop the bitter argumentswith Germany to ensure the euro is properly supported. "It must be made clear that a debt of a euro member will be repaid," he said. "It's a question of confidence."

Announcing more talks with German Chancellor Angela Merkel in Paris on Monday to "guarantee Europe's future", Mr Sarkozy added: "France and Germany, after so many tragedies, have decided to unite their destiny and to look to the future together."

"... "France and Germany, after so many tragedies, have decided to unite their destiny and to look to the future together."

However, he indicated that the European Central Bank (ECB) may intervene if the crisis worsens, despite German opposition, saying he had "no doubt that with the deflationary risk facing Europe, the ECB will act".

Admitting that France had "spent too much and often badly", Mr Sarkozy pledged an "immense revolution" to install a "new model of growth". But he insisted the eurozone would have to reform together. "We will not retake control of our destiny alone. We will not domesticate finances alone. We will not change the rules of globalisation alone."

Using similarly apocryphal language for a central banker, ECB chief Mario Draghi said in a separate speech he had "observed serious credit tightening" in Europe that "does not bode well for the months to come". He hinted he may unleash further help but only if countries united behind "new fiscal compact" binding them to common debt and deficit rules. Mr Draghi said a "fundamental restatement of the fiscal rules" was "definitely the most important element to start restoring credibility".

In comments that analysts said hinted at another bond-buying programme, Mr Draghi added: "Other elements might follow but the sequencing matters."

The fresh energy from leaders came as data showed that Germany's manufacturing sector shrank for the second month in a row in November, and activity fell at the steepest rate since the middle of 2009. French output also fell while Greece's figures showed a record decline. Markit's manufacturing PMI for the eurozone as a whole fell to 46.4 in November, the lowest since July 2009.

UK DAILY TELEGRAPH / **LINK**

We all have them – friends with a fear of flying despite all those reassuring statistics. Yet some of those very same people invest their savings in airlines where the odds are much less in their favour, as Tuesday's bankruptcy filing by American Airlines parent AMR Corp underlined. Since deregulation in 1978, there have been two-and-a-half times as many US airline bankruptcies as fatal accidents, according to Air Transport Association and Airdisaster.com data.

Warren Buffett's quip about how shooting down the Wright brothers would have been a great service to capitalism is backed up by ugly numbers. In the entire recorded history of the US airline industry, cumulative earnings have been negative $33bn.

"... Since deregulation in 1978, there have been two-and-a-half times as many US airline bankruptcies as fatal accidents

It is not for lack of trying – airline executives are obsessed with efficiency. Last year's US passenger load factor of 82 per cent was the highest ever and a third more than two decades earlier. A new hit TV programme in the US about defunct airline Pan Am plays on nostalgia about when air travel featured meals, legroom and, er, friendlier flight attendants. Since deregulation, however, prices have risen only 70 per cent, or a third as much as underlying inflation. The economic benefits have all flowed to passengers, airports or aeroplane manufacturers and financiers.

This seems odd given the still high barriers to entry, limited competition on many routes, and a steady rise in passenger numbers worldwide. But airline economics, involving high overheads, sensitivity to economic and geopolitical shocks, and an aversion to empty seats encourage ruinous competition.

As Sir Adam Thomson, former boss of British Caledonian, once said: "A recession is when you have to tighten your belt; depression is when you have no belt to tighten. When you've lost your trousers, you're in the airline business."

LEX / **LINK**

The euro project was flawed from the start and the current generation of European leaders has failed to address its fundamental problems, Jacques Delors, the architect of the single currency, declares today.

In an interview with The Daily Telegraph, Jacques Delors, the former president of the European Commission, claims that errors made when the euro was created had effectively doomed the single currency to the current debt crisis. He also accuses today's leaders of doing "too little, too late," to support the single currency.

The 86-year-old Frenchman's intervention comes the day after France and Germany took another step towards the creation of a full "fiscal union" within the European Union and David Cameron insisted that Britain must remain a major player in Europe. Mr Delors, who led the commission from 1985 to 1995, played a central role in the process that led to the creation of the euro in 1999. In his first British newspaper interview for almost a decade, he says that the debt crisis reflects a threat to Europe's global role and even basic Western democratic values.

Mr Delors claims that the current crisis stems from "a fault in execution" by the political leaders who oversaw the euro in its early days. Leaders chose to turn a blind eye to the fundamental weaknesses and imbalances of member states' economies, he says.

"The finance ministers did not want to see anything disagreeable which they would be forced to deal with," he says.

The euro came into existence without strong central powers to stop members running up unsustainable debts, an omission that led to the current crisis. Now that the excessive borrowing of countries such as Greece and Italy has brought the eurozone to the brink of disaster, Mr Delors insists that all European countries must share the blame for the crisis. "Everyone must examine their consciences," he says.

However, he singles out Germany for its strict insistence that the European Central Bank must not support debt-stricken members for fear of fuelling inflation. The euro's troubles spring from "a combination of the stubbornness of the Germanic idea of monetary control and the absence of a clear vision from all the other countries".

★ ★ ★ *UK DAILY TELEGRAPH* / **LINK**

This may sound sensationalistic, but I think the odds are very high that, on average, gold producers will sell in the $200 range before this bull market is over. With most of them trading between $20 and $40, the returns could be tremendous. And while the typical junior won't reach the same price level, their percentage returns will be much greater and potentially life-changing, as you're about to see.

The timing of this article may seem incongruous, given the recent weak performance of gold and gold stocks. But that was the identical situation in each of the past manias: both the metal and the equities didn't excel until the frenzy kicked in. The following documentation is actually a fresh reminder of why we think you should hold on to your positions – or start accumulating them, if you haven't already.

So, are my projections based on some fantastical gold price, or a complex formula for gold stock valuations? Nope. I base my projections simply on what gold stocks have done in the past. And to the surprise of many investors, it's a performance they've logged several times, making the following prices very believable if you're bullish on gold.

It comes with a warning, though:

Returns of Producers in 1979-1980 Mania

Company	Price on 12/29/1978	Sept. 1980 Peak	Return
Campbell Lake Mines	$28.25	$94.75	235.4%
Dome Mines	$78.25	$154.00	96.8%
Hecla Mining	$5.12	$53.00	935.2%
Homestake Mining	$30.00	$107.50	258.3%
Newmont Mining	$21.50	$60.62	182.0%
Dickinson Mines	$6.88	$27.50	299.7%
Sigma Mines	$36.00	$57.00	58.3%
Giant Yellowknife Mines	$11.13	$39.00	250.4%
AVERAGE			**289.5%**

SOURCE: CASEY RESEARCH

Caution: the following tables may cause excitement, drooling, or the temptation to go all in. Read and invest at your own risk.

You've undoubtedly read about gold's spectacular climb in 1979-'80. And you've likely heard how well gold stocks performed in general. But most researchers haven't identified exact returns from specific companies during this era.

The reason? Digging up hard data prior to the mid 1980s, especially for the junior explorers, is difficult because it hasn't been computerized. So we sent a couple of researchers to the library to view the Wall Street Journal on microfiche. We also relied on Scott Hunter of Haywood Securities; Larry Page, president of the Manex Resource Group; and the dusty archives at the Northern Miner. (This means our tables, while accurate, are not necessarily comprehensive.)

Let's get started...

The Quintessential Bull Market: 1979-1980

The granddaddy of gold bull markets occurred during the 1970s decade, one culminating in an unabashed mania in 1979 and 1980. Gold peaked at $850 an ounce on January 21, 1980, rising 276% from the beginning of 1979. Yes, the price of gold on the last trading day of 1978 was a mere $226 an ounce.

Here's a sampling of gold producers from this era. What you'll notice in addition to the mouthwatering returns is that gold stocks peaked not until nine months after gold.

★ ★ ★ *JEFF CLARK* / **LINK**

A Chinese tourism company listed in the United States wants investors to pour their money down a dark hole. Literally.

China's "Underground Grand Canyon," about an hour's drive outside the smoggy city of Linyi in the eastern province of Shandong, promises visitors 3 km (2 miles) of grand stalactites, multicolored lights and an exciting luge ride.

"... The company controlling the Underground Grand Canyon in Shandong has not been accused of accounting problems and has not been implicated in any wrongdoing. However, its road to a U.S. listing presents a detailed portrait of the practice of reverse mergers

Tracing the attraction's ticket receipts back to investors in the United States proves an even more complex labyrinth to navigate. Following the trail sheds light on the lengths some Chinese businesses have gone to secure overseas listings, which bring the companies funding and prestige back home.

"For entrepreneurs, going public gives them a sense of recognition. For employees, going public gives them a sense of achievement," Zhang Shanjiu, the chairman of the company, boasted to a tourism publication four years ago as he embarked on the odyssey to list it.

The owners of the Underground Grand Canyon attraction eventually used a dizzying array of holding companies to ultimately list in the United States through a reverse merger that accomplished the feat in 2010.

That practice has come under scrutiny over the past year, as short-sellers including Muddy Waters have targeted some firms listed in the United States and Canada, publishing research reports accusing them of fraud that caused their stock prices to plummet, from which the short-sellers profited.

Some companies that listed through reverse mergers, including Chinese clean-tech firm Rino International, were eventually delisted following investigations prompted by short-sellers' accusations of accounting flaws.

The company controlling the Underground Grand Canyon in Shandong has not been accused of accounting problems and has not been implicated in any wrongdoing. However, its road to a U.S. listing presents a detailed portrait of the practice of reverse mergers.

The tourist attraction, located off a small road exiting the millet- and corn-growing village of Yishui in the plains of Shandong, is the brainchild of Zhang, the local magnate who in 2004 leased the cave from Linyi officials for nearly 60 years.

With its rock-shaped ticket booths and brightly lit caverns, the cave tourism business attracted more than 670,000 visitors last year, the company says. By comparison, more than 3.6 million visitors visited Yellowstone National Park, the oldest national park in the United States, that year. (Yellowstone is not listed, nor is the U.S. Grand Canyon in Arizona).

REUTERS (THANKS AR) / **LINK**

Portugal has raided €5.6bn (£4.8bn) of pension fund assets in a controversial scramble to meet its deficit targets.

The cabinet agreed to transfer the assets from four of Portugal's biggest banks to the state balance sheet.

The assets will be used to bridge a gap needed to meet the fiscal deficit target of 5.9pc of GDP set by the terms of the country's €78bn bail-out from around 10pc in 2010.

"This measure is more than sufficient to meet the budget deficit goal in 2011," said Helder Rosalino, secretary of state for central administration, on Friday.

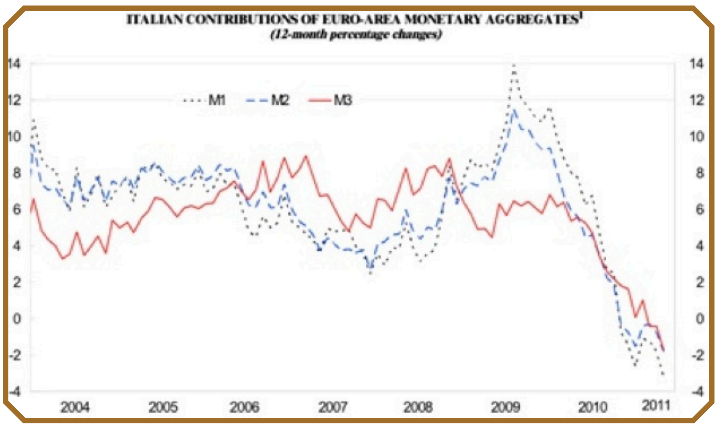
Portugal said it had informed the EU and IMF and assured them it would be a "one-off". However the 2010 budget was met by shifting three pension plans from Portugal Telecom on to the public social security system. The liabilities don't count, yet.

There have been no complaints from Eurostat but Raoul Ruperal from Open Europe said: "This can't be seen as a future revenue stream in any way."

UK DAILY TELEGRAPH / **LINK**

If the problem were one of liquidity, then this week's action would be enough. But the problem is solvency. The majority of European banks are insolvent. They own too much debt of sovereign countries that are going to have to reduce their debts. There is a growing number of analysts who are realizing that even Italy may have to reduce its debt burden. I have highlighted the problems faced by Belgium. And how about Spain, and Portugal?

What this action does is give the ECB the dollars it will need to loan to the various national central banks, so they can loan to their insolvent banks. Will they bail them out, or nationalize them? The answer depends on the country and its voters. But absent recapitalizing their banks, there will be a credit crisis that will affect the whole world.



SOURCE: UK DAILY TELEGRAPH

The amount of debt that will have to be written off and the loan portfolios reduced, as well as new capital raised, is daunting. As I have noted previously, the need is for around €3 trillion.

Writing off so much debt in the midst of a recession, coupled with austerity moves, will be massively deflationary for the eurozone. But Merkel and the German Bundesbankers have made it clear that they will not be part of any "printing press" action that is not coupled with serious commitments for balanced budgets. Even in the face of a recession.

Which makes it quite strange that the ECB has been tightening in terms of money supply the past year. Notice in the graph below that M1, M2 and M3 are all in negative territory. (Chart [previous page] from the London Telegraph.)

The ECB under Trichet was apparently fighting inflation. He raised rates and let his inner Bundes-banker take control. Maybe with the rate cut and the new head of the ECB, Mario Draghi, we can see signs that the ECB may in fact act to ease...

★ ★ ★ *JOHN MAULDIN* / **LINK**

Germany's Finance Minister spelled out details on Saturday of his proposal for national redemption funds for excess sovereign debt which he intends to present at a crunch summit of EU leaders next week aimed at restoring confidence in the euro.

Wolfgang Schaeuble outlined his plans under which states would effectively siphon off a chunk of their debt to a special national fund and pay it off over about 20 years while committing to reforms to keep debt levels on target.

Schaeuble believes his proposal, which has won qualified support from Chancellor Angela Merkel, would boost confidence as states would be sending a signal they were serious about limiting debt levels to 60 percent of gross domestic product.

Investors are desperate for a sign from EU leaders next week that they can find a solution to the more than two year-old debt crisis which is having a knock-on effect on the global economy. Merkel is pushing for binding EU rules on budget discipline.

“We need a redemption fund in every single country of the euro zone,” Schaeuble told the Passauer Neue Presse.

“Each of these countries should put into a special fund that part of its debt which exceed 60 percent of its GDP, and should pay that off with tax revenues. Over a period of 20 years, the debt should be reduced to 60 percent,” he said.

In Germany’s case, the fund - covering federal, state and municipal debts - would amount to about 500 billion euros ($672 billion) as German debt is around 80 percent of its gross domestic product, said Schaeuble.

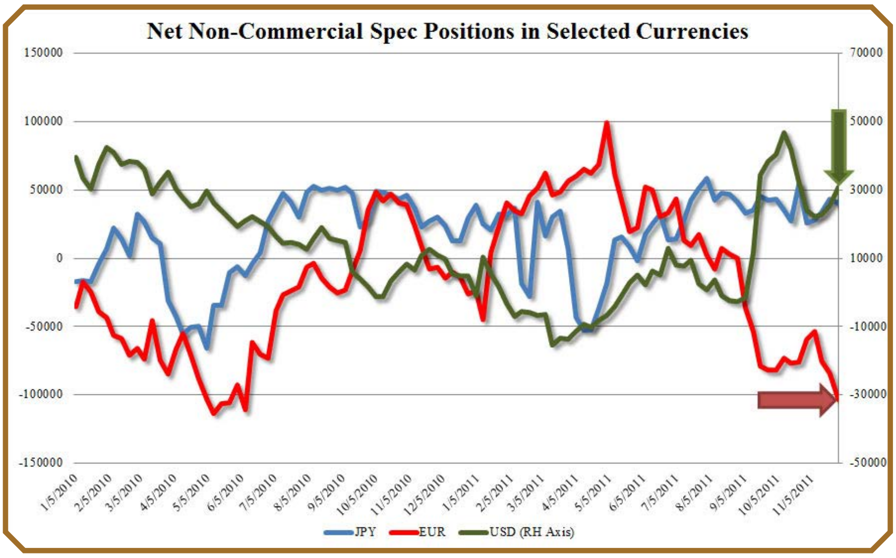
An earlier proposal this month from a panel of independent economic advisers to the German government which was rejected as unrealistic by Merkel, envisaged a European Redemption Pact.

That proposal, for a fund of up to 2.3 trillion euros, was anathema to Merkel because it suggested pooling excess debt into a fund with common liability.

Germany is dead set against any pooling of responsibility for debt within the euro zone, arguing states must themselves tackle their debt problems.

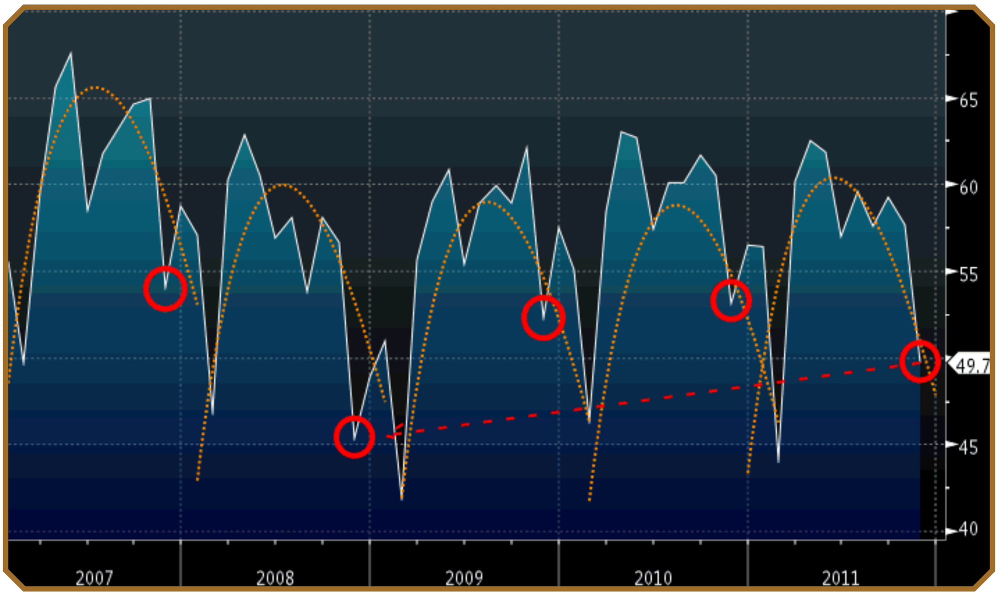
Schaeuble’s plan has already hit opposition from Austria. Finance Minister Maria Fekter said on Friday any proposals that resulted in gathering billions of euros from taxpayers would encounter problems in national parliaments.

★ ★ ★ *REUTERS* / **LINK**



CLICK TO ENLARGE SOURCE: ZEROHEDGE

The increase in Commercial short positions in the Euro (per the CFTC's latest COT report) could potentially spark a massive short-covering squeeze should the Eurocrats surprise us all with a credible solution at their summit next weekend..... of course, if they screw it up again.....

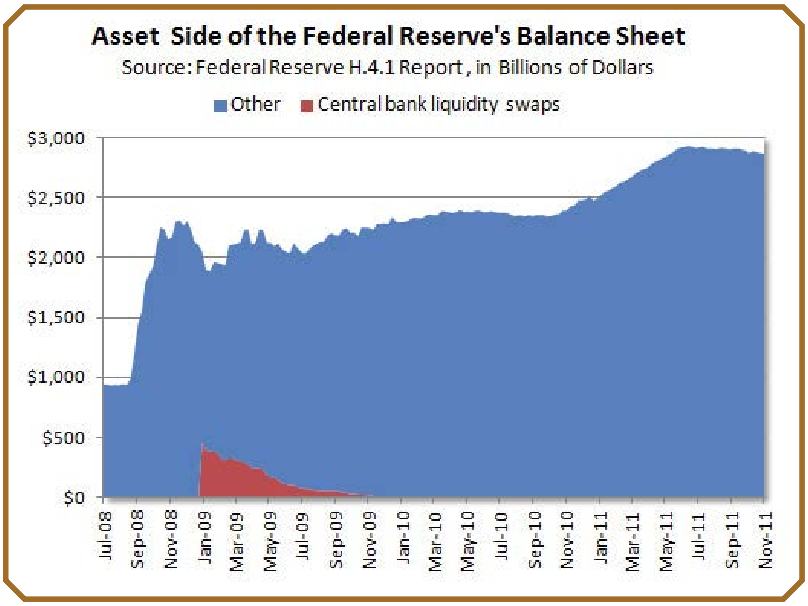


CLICK TO ENLARGE SOURCE: ZEROHEDGE

China released its Non-manufacturing PMI data and it was a howler. The series is very cyclical but we note that the November print fell dramatically to its lowest level since the middle of 2008's global economic meltdown. Dropping below the 50 (deteriorating) line for the first time since Feb 2011 and combined with the dismal manufacturing PMI print from earlier in the week, we are reminded of David Rosenberg's critical insight 'Don't confuse resilience with lags' when we hear further chatter about the US apparent miracle decoupling. It seems that this 'lag' is already impacting US firms, as we noted earlier, and with EM nations increasingly starved of credit via European bank deleveraging, it seems a game-of-chicken between the Fed and the PBOC may begin on who prints/QEs first to save the world from reality once again.

China non-manufacturing PMI is evidently extremely cyclical (the orange curves) but we note the huge drop off in the November print relative to previous years. Not only is the first November print below 50 in 3 years its only been worse than this level during the crisis meltdown of the global economy.

ZEROHEDGE / LINK

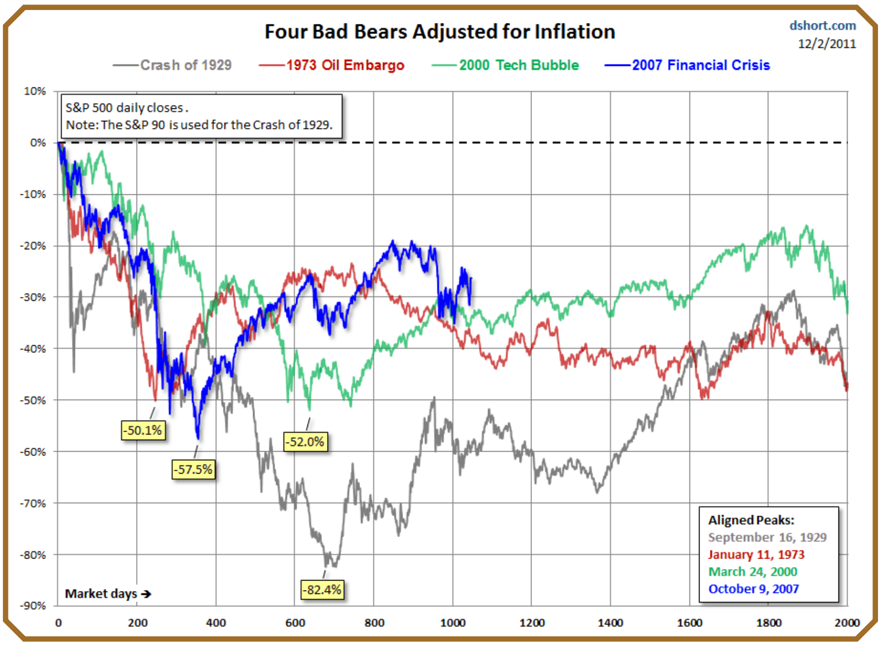


SOURCE: TIM IACONO

Since reading about the central bank dollar swap program announced the other day and that it really isn't anything new, just the resurrection of a 2008-era crisis facility, plotting these swap lines versus everything else on the Fed's balance sheet seemed like a good idea.

As shown [left], the program "sprang to life" in December 2008 and, based on what's happened in recent days, it looks like it just might spring to life again in the period ahead.

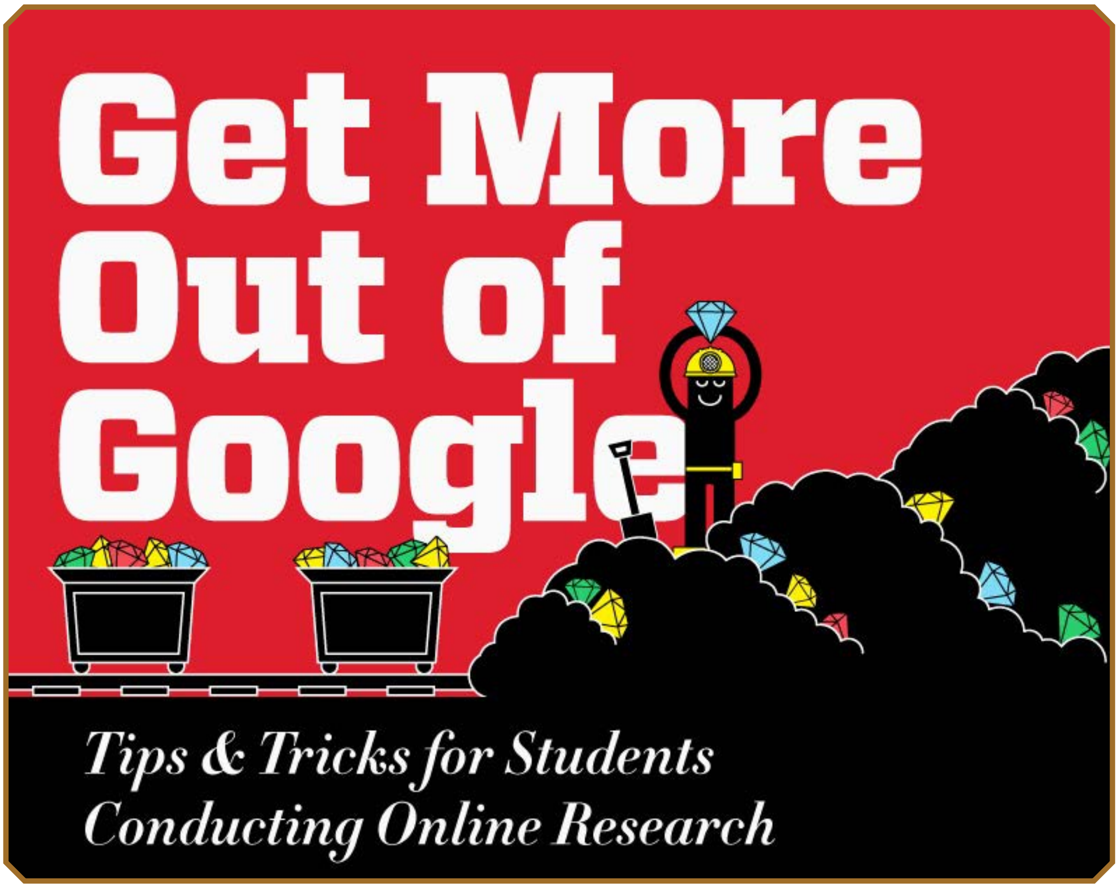
TIM IACONO / **LINK**



CLICK TO ENLARGE

SOURCE: DOUG SHORT

Doug Short's excellent '4 Bad Bears' chart has been updated and as always makes for excellent perspective...



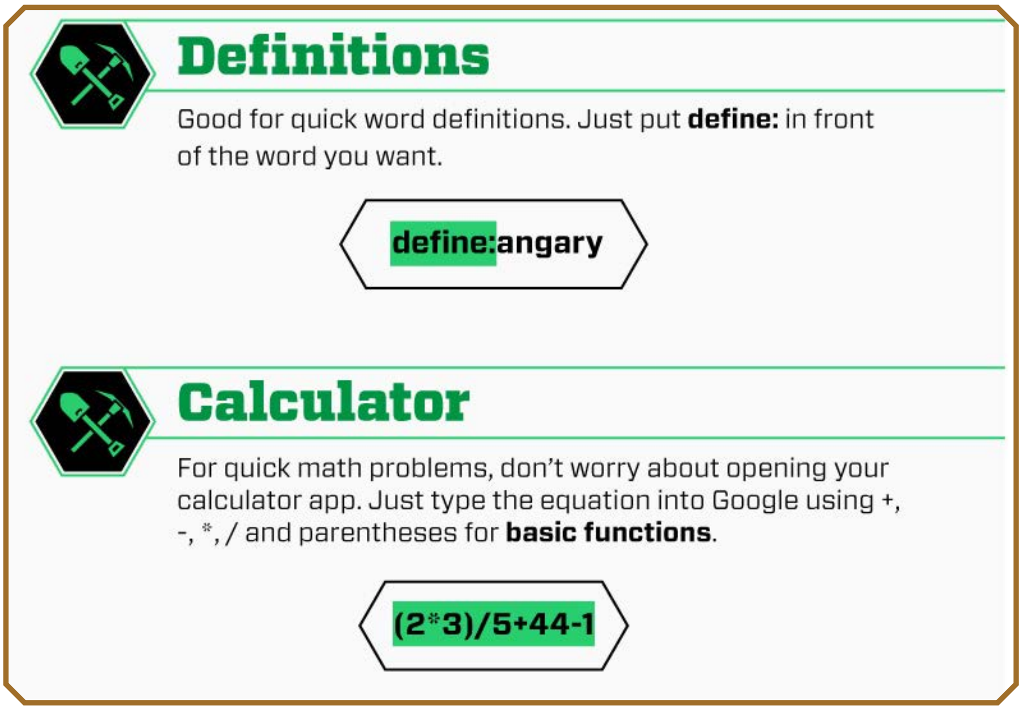
CLICK TO ENLARGE

SOURCE: THE BIG PICTURE

Courtesy of Bary Ritholtz comes this excellent guide on how to get the most out of Google.

Dozens of handy tricks in here that will make your searching much easier.

Search by filetype? Who knew?



CLICK TO ENLARGE

SOURCE: THE BIG PICTURE

So many videos for you this week you'll just have to pick and choose which you want to sit and watch. Charlie Rose conducts a rare interview with legendary investor Seth Klarman, Chris Martenson gives a fascinating presentation on the potential differences we'll see in the next 20 years when compared to the previous 20 and Kyle Bass talks at length about a variety of subjects including his bete noir - Japan.

If those three heavyweights aren't enough for you, we have our old friend Nigel Farage discussing the perilous state of major banking institutions, the always-entertaining Gerald Celente (still smarting from his MF Global experiences) talking about back-door deals and the likely paths of gold and silver, the always-excellent Marc Faber discussing the chances of a Chinese hard landing, Robert Shiller on an unexpected drop in housing prices and, if you're quick and haven't had enough of listening to others for one day, there's even a brief interview with yours truly that I gave to the ABC in Sydney last week whilst visiting my wonderful daughters.

CLICK TO WATCH

CLICK TO WATCH

CLICK TO WATCH

CLICK TO LISTEN

CLICK TO LISTEN

CLICK TO LISTEN

CLICK TO WATCH

As an interested bystander, I have watched the Cain Train with a mixture of amusement and bemusement.

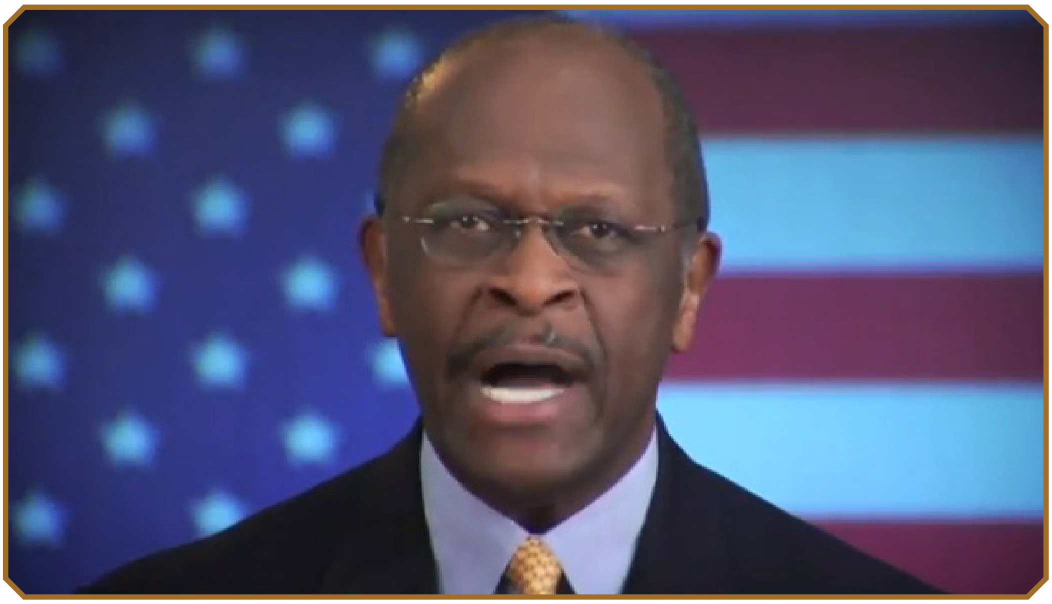
From the first time I heard him speak several years ago on a radio interview to the day I heard (with some disbelief after that interview, I must say) that he was suddenly a viable candidate for the Presidency of the United States of America, through the sexual harassment allegations, the Libyan fiasco and everything in between, I have witnessed the circus that has surrounded Herman with a somewhat jaded eye.

Sadly, after his withdrawal from the GOP candidacy race today, the lives of people like Jon Stewart will be that much emptier.

Here, by way of a tribute, is a video that has been making me chuckle for weeks.

Bad Lip Reading of Herman Cain.

This is MY JUICE!



CLICK TO WATCH

Hmmm…

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