THINGS THAT MAKE YOU GO

Hmmm...

A walk around the fringes of finance

“...disbursements to Greece by the EFSF and the IMF will still be conditional on compliance with conditionality”

– EUROPEAN COMMISSION ,*THE SECOND ECONOMIC ADJUSTMENT PROGRAMME FOR GREECE (VIA MISH)*

“But when someone is on a winning horse, and everything looks wonderful, it’s very hard as an outsider to persuade them something is wrong”

– James Wolfensohn

“I sit astride life like a bad rider on a horse. I only owe it to the horse’s good nature that I am not thrown off at this very moment”

– Ludwig Wittgenstein

“A good horse should be seldom spurred”

– Thomas Fuller

This week as

I was mulling over how to organize the chaotic collection of thoughts in my head, a strange thing happened; I had a brainwave and, literally a matter of minutes afterwards, a friend of mine here in Singapore serendipitously sent me a link to a video featuring the exact event that I had decided to use to tie that bundle of chaos together (thanks Craig). What was that event, I hear you ask? Well, it was a tale of two Dicks.

In April 1956, at the storied Aintree racecourse, just outside Liverpool in the North of England, 29 horses milled around waiting for the starter to raise the tape and begin the 110th running of the Grand National – the most famous steeplechase in the world, run over 4 miles and 856 yards with 30 daunting fences to conquer before horses cross the finish line.

Among the favourites that year was a 10 year-old gelding belonging to HM Queen Elizabeth the Queen Mother (one of two runners she had in the field) called Devon Loch, sired by Loch Lomond, which had won two races already that year. Sitting astride Devon Loch was Her Majesty's favourite jockey, Richard Stanley "Dick" Francis, a man who would go on to become one of Britain's most successful authors once his riding career ended a year later after a serious fall.

The first fence of the 30 claimed the favourite, 'Must' along with the highly-fancied 'High Guard' and Devon Loch sat nicely in the pack just off the lead, jumping well within himself and looking completely at ease. By the time the horses had run two miles, however, the grueling race began to take its toll and horse after horse fell by the wayside. Nine horses would fall at the last ten fences until, as they rounded the final bend and hit the home straight, there were just 10 horses still standing, thundering towards the finish:

> *"...the crowd surged to the rails and the cheers all centred on the faraway, bobbing head and swinging hooves of Devon Loch. With three others he took the last thorn fence with great lift and rhythm. You could see some of the hooves hitting the brushwood but no one came down. Devon Loch got first into stride and was soon pounding past the stands, five lengths clear of ESB, with Francis already stretching out a hand for his bay-leaves."*

Francis had the race in his grasp. Forty yards from the line, all fences jumped and a clear run home with the crowd cheering him on there was nothing that could possibly go wrong.

Meanwhile, trailing behind Francis, on E.S.B. was another Dick – David Dick – a gregarious, larger-than-life man (no mean feat for a jockey) who, according to perhaps the world's most illustriously-titled sports pundit, John Geoffrey Tristram Lawrence, 4th Baron Trevethin, 2nd Baron Oaksey, was quite a character;

> *"...The stories he told that evening were unforgettable too - the foxes they'd killed, the fences he had jumped, the beautiful ladies he had chased and how pleased they all were to be caught. All the time I knew him, on gallops or schooling grounds, in racecourse changing rooms, Turkish baths, restaurants and bars, even, occasionally, posh London clubs, Dave was always bursting with comparable tales.*
>
> *Sometimes they needed a sizeable pinch of salt and most, I'm glad to say, were about as politically incorrect as any such tales can be."*

"Go on then you, lucky devil" Dick later recalled saying out loud as he watched Francis and Devon Loch accelerate away from him, but then, without any warning, something utterly bizarre and completely unexpected happened:

> *(UK Daily Telegraph): ...what happened next remains one of sport's greatest mysteries; 50 yards from the line and with the entire nation cheering a Royal victory, Devon Loch pricked up his ears, appeared to jump a phantom obstacle, and belly-flopped to the turf with his four legs splayed out like Bambi on ice...In what can have been no more than two seconds - but it seemed like an age - Francis threw his weight forward and his mount struggled to his feet. Could be still do it? It looked as though he might. The first royal victory in the National since 1900 only forty yards away.*
>
> *The crowd was shocked: almost hamstrung itself. It was like a modern nightmare, the will without the power. But down went the hind legs again as ESB rushed triumphantly past. Francis dismounted, threw down his whip and wept..."*

Nobody will ever be able to offer an explanation for Devon Loch's unexpected tumble that doesn't contain a certain amount of conjecture; Francis himself maintained that a loud cheer from the crowd unsettled the horse whilst others cited cramp, a heart attack and even the presence of a shadow cast by the Water Jump fence as the reason behind the fall, but the truth will never be known. All we DO know is that an outcome that was taken as certain by everybody watching it suddenly proved anything but and a far different ending transpired that caught everybody off-guard.

Recently, the debate over the fate of the global economy has continued to rage with each release of a major economic data point being picked apart and tossed back and forth from bears to bulls as each group attempts to make the unequivocal case for the outcome they feel sure awaits us at the finish line.

Over the last few months, the 'short-priced favorite' - judging by the performance of US equity markets - has been 'Recovery' - a three-year old sired by Intervention, with 'Return to Growth', a somewhat moody yearling also attracting some decent attention from punters.

But, as we enter the latter stages of this particular race, it is worth taking another look at the other horses in the field that, should the favourites stumble, could come storming through and cross the line first. Many of them are outsiders that have only been backed by those twisted and tortured souls who spend every waking hour studying the form, several of them are popular with 'tipsters' but have struggled to win over a disbelieving public and more than a few have been actively talked down as contenders by the owners of 'Recovery' and 'Return to Growth'. The one thing they ALL have in common though, is that, this being a horse race, as the 1956 Grand National proved, we shouldn't take a win for the favourite for granted until it has crossed the line.

And with that, let's take a look at a selection of the runners and riders and offer a little background as to their chances of a surprise victory:

LADY OF SPAIN

Jockey: Mariano Rajoy

Form: 7-09--800

This filly has confused many observers of late with her erratic performances over longer distances. Last year she was written off as a serious contender as the debate raged over whether 'Grecian Earn' would be scratched and all eyes turned to the big stallion 'Arrivederci Roma' who was looking a good bet with some steady work on the gallops.

General awareness of the issues facing Spain is finally rising - the 22% unemployment rate and the 50% youth unemployment rate have become statistics that roll off the tongue of even the most casual observer of the country's fiscal and societal dynamics. But Spain's real problems lie in the reality of her published government debt numbers and at the heart of her banking system. It is in these two places that any clues lie as to her chances of upsetting 'Recovery' on its dash for the line.

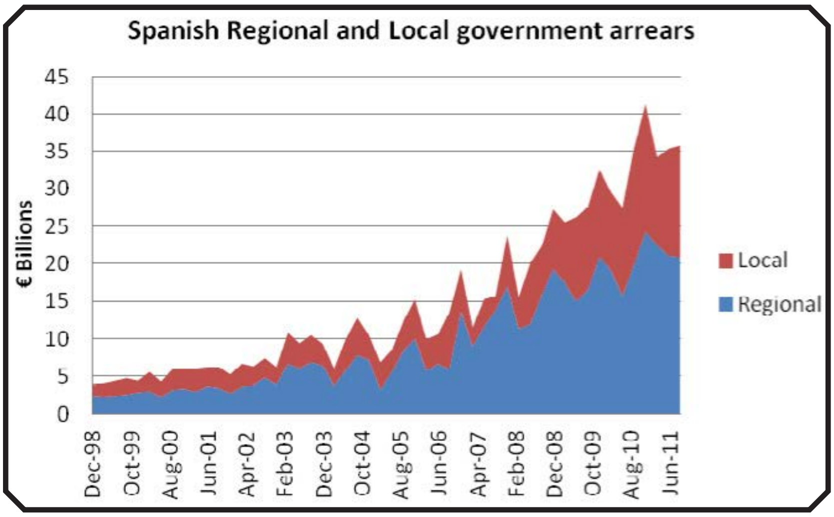
Spain is a big economy - the world's 12th-largest in fact, which puts it just behind Russia and ahead of Australia (13th), Mexico (14th) and South Korea (15th) - and if it were to require a bailout, the size of that bailout would soak up the vast majority of the EFSF/ESM combined firepower.

Recently, focus has trained on the veracity of the deficit numbers being disseminated by the Spanish regional governments with many commentators and observers positing that perhaps things aren't quite as they seem:

> *(NYTimes): And there is that "hidden debt," most of it in unpaid bills, which is not included in Spain's total national indebtedness of $915 billion. That could easily amount to $25 billion to $40 billion more, experts say.*
>
> *And the bad news probably is not over. Some experts believe that as newly elected members of Mr. Rajoy's Popular Party take control of some regional administrations, they are sure to unearth even more financial excesses. That is what happened in Catalonia, where the "hidden debt" problem first popped up this year. When elections were held there in 2010, the ratio of debt to regional G.D.P. was believed to be less than 2 percent. But after the vote, the departing government disclosed that its full year deficit could be 3.3 percent. The new government later revised that figure again, to 3.8 percent.*
>
> *Experts believe that this kind of markup is possible elsewhere, including Andalusia in the south, which has Seville as its capital. "Andalusia could be spectacular," Mr. de Quirós said...*

Greece, anybody?

Spain's regional governments account for 50% of public spending and the problem of unpaid debts held by local and regional governments is not getting any better as can be seen in the chart, below.



SOURCE: BANK OF SPAIN/OPEN EUROPE

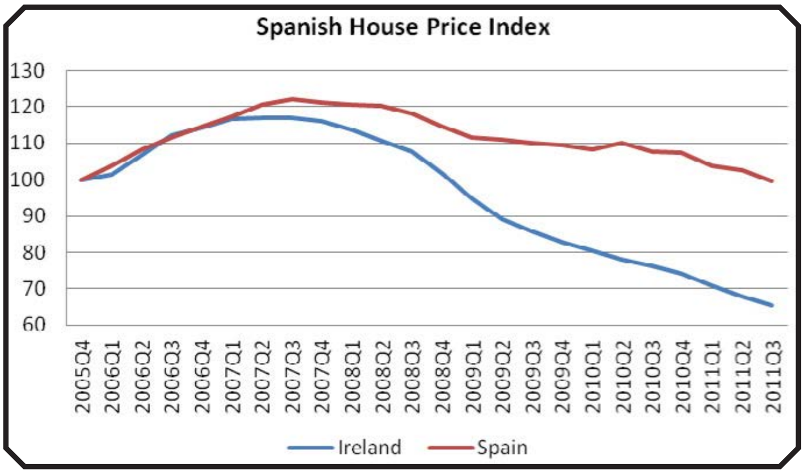
But it is at the heart of her banking system that Spain's real problem lies.

Spain's property bubble was truly epic and the readjustment needed has simply not been effected as can-kicking has reached a whole new dimension in Spain. Roughly 20% of the €400bln in loans outstanding are believed to be either in default of likely to be shortly and the provisions currently held against them (€50bln) are woefully inadequate (assuming, of course, these figures aren't hugely understating the problem once again).

A recent report by Open Europe, laid bare the problems at the heart of the Spanish banking system for all the world to see:

> *(Open Europe): The housing boom and bust in Spain is well documented. However, despite the massive increase in prices over the*

last decade housing prices in Spain are yet to fully adjust. This is particularly stark when compared to Ireland, which experienced a



SOURCE: **EUROSTAT**

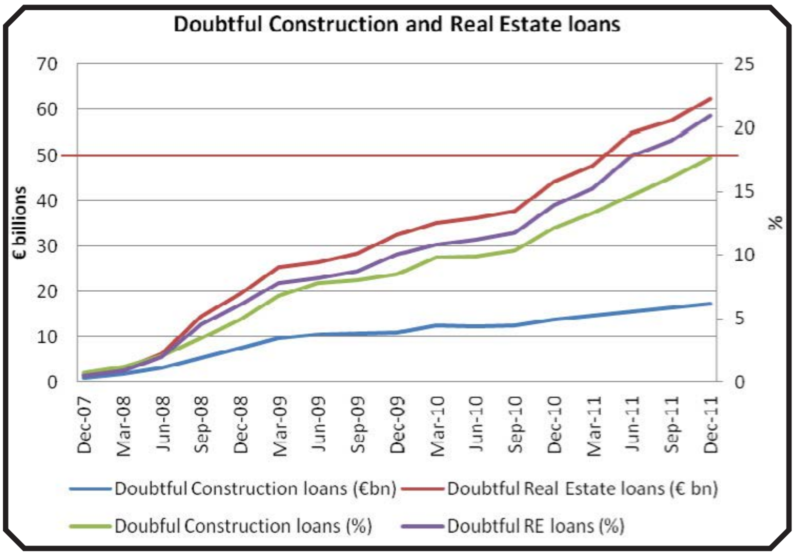
similar bubble but has seen prices fall much more steeply:

On the surface the lower reduction in house prices may seem positive for Spain, but the decline picked up substantially at the end of last year (annual fall of 11.2%). The massive oversupply of housing and collapse in demand, means prices have much further to fall. In all likelihood, given the similar situation, house prices will have to fall as far as they did in Ireland, that is, another 35%. Due to the greater flexibility in wage costs and output costs in Ireland (thanks to its flexible labour market and open economy), the sector was able to adjust after the bust much more quickly than in Spain. A similar adjustment must and will take place in Spain but due to wage stickiness it is taking much longer.

A steep decline in real estate prices will in turn increase the number of residential and commercial borrowers defaulting on their loans, exposing banks to large losses... The level of 'doubtful' loans on the books of Spanish banks *has skyrocketed since the start of the financial crisis and now stands at €136bn. This means that, of all their loans dispersed, 7.6% are now judged as doubtful, and can be seen as potentially toxic and at serious risk of default.*

Taken together, there are currently €80bn in doubtful loans to the real estate and construction sectors - equal to 20% of all loans to these sectors. This results from around a 20% fall in real estate prices. If a further 35% decrease is still to come, things could get a lot worse. Proportionately, we could expect the number of doubtful loans to double. In any case, with further falls in prices many of these currently doubtful loans will default while an even larger share will become viewed as uncertain.

This means that the €50bn (shown by thin red line on graph, below) that the government recently ordered banks to put aside to cover potential losses is far from adequate. The current provisions cover only 37% of total doubtful loans and 62.5% of doubtful loans to the construction and real estate sectors. This seems inadequate even in the current position, but will be woefully short if the conditions worsen.



SOURCE: **BANK OF SPAIN**

There is plenty more in the Open Europe report and plenty more to come from Spain, but let's move on to another runner that might have a say in the outcome:

FRENCH FRIED

Jockey: To Be Decided

Form: 6009----0

Jockey selection for this temperamental mount is going to be a last-minute decision and the outcome of the selection process will go a long way towards determining whether 'French Fried' could potentially upset 'One Europe', 'Recovery' and 'Return to Growth'.

Put April 22nd in your diary folks. That is the day when the first round of jockey selection begins as France goes to the polls.

As recently as a couple of weeks ago, Nicolas Sarkozy was trailing Socialist frontrunner François Hollande handily in all surveys but he has recently staged something of a come-from-behind charge of his own.

This week, the diminutive Frenchman finally unveiled his manifesto and a 'letter to the French people' ahead of the Presidential elections in two weeks:

> *(UK Daily Telegraph): ...Mr. Sarkozy said France faced a "historic choice" between his austerity measures or uncontrolled spending that would bring the country to its knees.*
>
> *"Certain countries in Europe are today on the edge of a precipice," he warned, accusing Mr. Hollande, his Socialist challenger, of promising "a festival of new spending that no-one knows how to pay for, as if the world did not exist, Europe did not exist, the crisis did not exist."... "The situation today that our Spanish friends are going through, that our Greek friends have gone through, reminds us of reality. Look at the situation in Spain, after seven years of Socialist rule," Mr. Sarkozy said... Promising to balance the budget by 2016, he said parliament would pass a "golden rule" in July obliging governments to have a plan to balance their books.*
>
> *The Right-winger said he would continue to reduce the size of the French state, mainly by replacing half of retiring state sector workers and would save 115 billion euros – three quarters through cuts and the rest via tax rises.*

You have to hand it to Sarkozy - campaigning in France on a platform of austerity is a brave thing to do.

France's welfare expenditure (including education) is an astounding 34.9% of GDP, according to the OECD, putting it behind only Denmark and Sweden in percentage terms (by way of comparison, the UK figure is 25.9%, the US 19.4% and Greece 28.4%). As we have witnessed in recent elections across the world, there are two phenomena which play out with almost universal regularity:

- *Incumbents get voted out; and*
- *Austerity is NOT what one would call a 'vote-getter'*

For his part, Hollande has gone the other way and made some very populist pledges:

> *(Reuters): French presidential front-runner François Hollande promised on Wednesday to freeze fuel prices, slash government ministers' salaries and boost welfare payouts to families in a rush of legislation in his first eight weeks in office...*
>
> *The measures largely re-packaged Hollande's election manifesto, launched in January, but put a firm timetable on a series of economic reforms between the final round of voting on May 6 and the parliamentary recess at the end of June.*
>
> *They included a three-month freeze on fuel prices, a 25 percent increase in annual allowances for parents of school children and*

guaranteed above-inflation interest rates on tax-free savings accounts, as ways to bolster consumers' purchasing power.

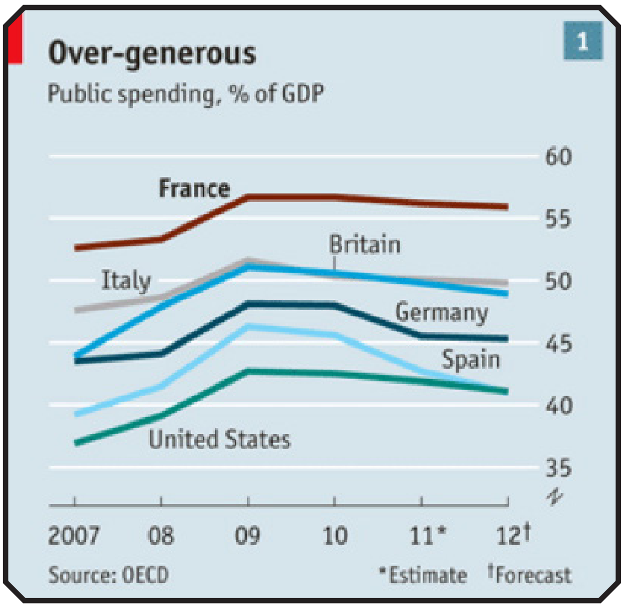
Hollande said he would also cut the salaries of the president and cabinet ministers by 30 percent and set new limits on ministerial staff numbers. Other measures centred on employment, consumer spending and managing public finances.

The Economist took a less-politicized view of France's situation in a recent article jauntily entitled 'A Country In Denial':

(Economist): ...Yet what is most striking about the French election is how little anybody is saying about the country's dire economic straits... The candidates dish out at least as many promises to spend more as to spend less. Nobody has a serious agenda for reducing France's eye-watering taxes. Mr. Sarkozy, who in 2007 promised reform with talk of a rupture, now offers voters protectionism, attacks on French tax exiles, threats to quit Europe's passport-free Schengen zone and (at least before Toulouse) talk of the evils of immigration and halal meat. Mr. Hollande promises to expand the state, creating 60,000 teaching posts, partially roll back Mr. Sarkozy's rise in the pension age from 60 to 62, and squeeze the rich (whom he once cheerfully said he did not like), with a 75% top income-tax rate...

The Economist goes on to provide some details around those dire economic straits:

France has not balanced its books since 1974. Public debt stands at 90% of GDP and rising. Public spending, at 56% of GDP, gobbles up a bigger chunk of output than in any other euro-zone country—more even than in Sweden. The banks are undercapitalised. Unemployment is higher than at any time since the late 1990s and has not fallen below 7% in nearly 30 years, creating chronic joblessness in the crime-ridden banlieues that ring France's big cities. Exports



SOURCE: ECONOMIST

are stagnating while they roar ahead in Germany. France now has the euro zone's largest current-account deficit in nominal terms. Perhaps France could live on credit before the financial crisis, when borrowing was easy. Not any more. Indeed, a sluggish and unreformed France might even find itself at the centre of the next euro crisis.

It is not unusual for politicians to avoid some ugly truths during elections; but it is unusual, in recent times in Europe, to ignore them as completely as French politicians are doing.

Whichever jockey wins the run-off on May 6th (and it's hard to see how that could be anything but a straight fight between Sarkozy and Hollande, despite the gains at the political extremes by Marine Le Pen on the right and Jean-Luc Mélenchon on the left), there is one fact that can't be denied; if whoever ends up astride 'French Fried' DOESN'T take steps to try and fix France's finances, the markets will NOT be happy:

(Economist): The inconvenient truth is that whoever emerges the victor on May 6th will need to show a tough approach to the deficit, in the face of wary bond markets

and possible recession. A President Sarkozy would need to find new budget savings, despite his promise to "protect" the French from austerity. A President Hollande would be forced to postpone or scrap some of his spending pledges, and would get a taste of German steeliness if he insisted on pushing Chancellor Angela Merkel on the subject of reviewing the fiscal compact. Either way, the result would be a shock for the French, and one that neither candidate has remotely prepared them for.

The temperamental mount may soon begin to attract a lot of smart money...

Yankee Douleur

Jockey: Ben Bernanke

Form: 11-232----

This big, strong horse used to be a happy frontrunner but, since a nasty fall in 2008 he has been content to sit in the pack while trying to regain his former confidence. Weak runs by other horses rather than any great strength of his own have tended to push him to the front of the pack

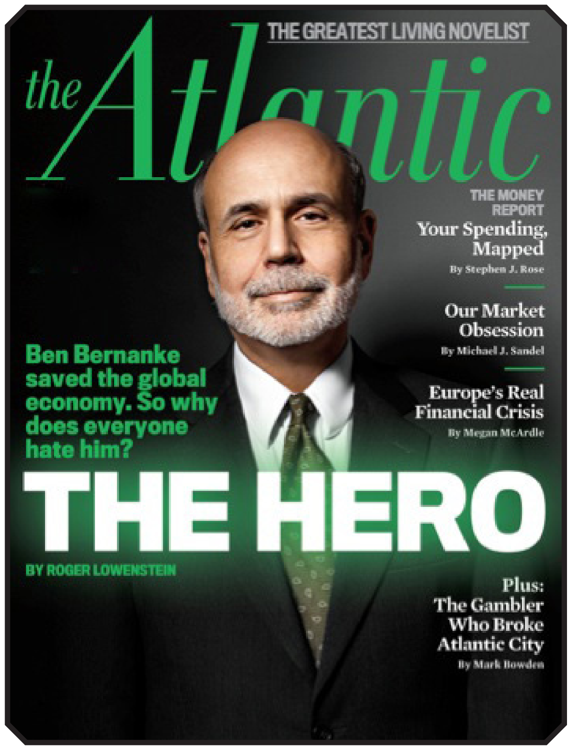
There is only one real jockey on this horse and it isn't Barack Obama or any of the pretenders to his crown currently ~~flinging custard pies at each other in the race for the Clown of the Year Award~~ vying for the Republican nomination.

The activities of the Bernanke Fed have been growing ever-more erratic of late and one can't help but wonder whether they know something the rest of us don't.

Having spent the last several years wildly cheering any improvement in economic data and championing even mildly stronger data as the start of a strong recovery (anybody remember those 'Green Shoots'?), the Bernanke Fed has lately gone out of its way to play DOWN any signs of strength and highlight their 'ongoing concern' about the strength of the economy.

Of course, having promised the world zero rates for another two years, Bernanke is keenly aware that a REAL recovery would entail raising those rates and by now, even the Chairman of the Federal Reserve has probably realised that, with markets now addicted to the sugar rush of free money and with the level of US debt needing to be refinanced presenting a very clear and very present danger, being backed into a corner where he had to tighten the spigots would most likely end very badly indeed.

It is doubtless no coincidence that recently, Bernanke has been gracing various media outlets more frequently than the Kardashians. There were the series of lectures to George Washington University students (during which Bernanke pounded gold and proclaimed the Fed was the



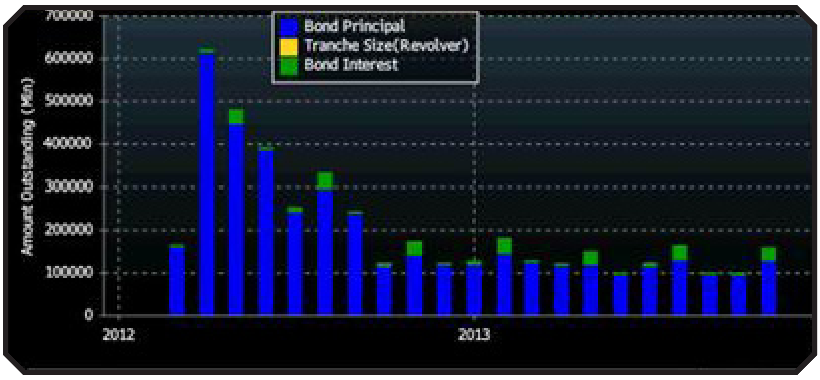
SOURCE: THE ATLANTIC

reason the world was 'saved'), we saw the astounding cover of The Atlantic which portrayed Bernanke as a quasi Green Hornet (sans mask), and, of course, the Prime Time ABC interview with Diane Sawyer, during which The Chairman

- a man who, in the words of Sawyer, "...rarely speaks but agreed to speak to us today" consistently played down Sawyer's urging that he proclaim the recovery 'real' or 'sustaining'.

But the reason for Bernanke's reticence to once again trumpet even mildly encouraging data (unlike President Obama who wastes no opportunity to proclaim the rebirth of the American economy) most likely lies in the debt refinancing schedule of the United States in the coming two years.

In 2012, roughly $3 trillion or 30% of US publicly-traded debt comes due (chart, below),



SOURCE: BLOOMBERG

making this year the biggest refinancing in US history. Of that $3 trillion, April sees a colossal $600bln of debt coming due (part of a staggering $1.5trln scheduled to roll over in Q2 alone) which means one thing - buyers of US bonds MUST be kept willing to pay current market prices (or higher) for US federal debt and the best way to ensure that happens is to continue to warn that the economy is still fragile and could tip over at any second (my thanks to my good friend AR for those numbers).

Any weakness in the bond markets during the rest of this quarter will surely have the FOMC deciding it was in the best interests of all concerned that just a little QE3 be unveiled - temporarily, of course.

The recent release of the minutes from the most recent FOMC meeting roiled markets with what they DIDN'T say as any real hint of further easing was played down:

> **FOMC SAW NO NEED TO EASE ANEW UNLESS GROWTH SLOWS, MINUTES SHOW*

Another strange phenomenon lately has been the unanimity of message from a board of Fed governors who have habitually held wildly differing views on the necessity for any kind of further stimulus. There has been a noticeably consistent message in speeches given by committee members of late - in direct contrast to the mixed messages that they have given us in years past.

But having a consistent message that is causing disappointment to markets is not always the shrewdest move to make and so, right on cue, the day AFTER the release of the FOMC minutes, we saw this little gem hit the wires:

> *FED'S WILLIAMS SAYS QE3 `NOT OFF THE TABLE'*

Sigh.

It's an outside bet at best right now - based upon the relative strengths of the other horses in the field - but any stumble by 'Recovery' or 'Return to Growth' could pave the way for Yankee Douleur to come screaming through the field.

CHINESE DIRTY LAUNDRY

Jockey: Xi Jinping

Form: ??-88--6-

Very little is known about the chances of this huge beast who will be racing under a new jockey. Opinions are divided amongst some of the best judges in the game and equally strong cases have been made for both a strong finish and a steady, uneventful race. This horse may be one to watch next year.

The municipality of Chongqing in China's southwest consists of 19 districts, 19 counties, 1,259 towns, townships and sub-districts and 1 hell of a personality clash.

The region is steeped in the kind of history one only finds in China:

> *(Wikipedia): Tradition associates Chongqing with the semi-legendary State of Ba that the Ba people supposedly established during the eleventh century BCE. By 316 BCE, however, it had been overrun by the State of Qin. The Qin emperor ordered a new city to be constructed, which was called Jiang and Chu Prefecture.*
>
> *Chongqing was subsequently renamed in 581 CE and later 1102, to Yu Prefecture and then Gong Prefecture. It received its current name in 1189, after Prince Zhao Dun of the Southern Song Dynasty described his crowning as king and then Emperor Guangzong as a "double celebration". Hence, Yu Prefecture became Chongqing subprefecture to mark the occasion.*
>
> *In 1362, (Yuan Dynasty), Ming Yuzhen, a peasant rebelling leader, established the Daxia Kingdom at Chongqing for a short time.*
>
> *In 1621 (Ming Dynasty), another short-lived kingdom of Daliang was established by She Chongming with Chongqing as its capital.*
>
> *Between 1627–1645, with the fall of the Ming Dynasty, Chongqing, together with the rest of Sichuan, were captured by the Revolts who overthrew the Ming Dynasty across the nation. Later during the Qing Dynasty, immigration to Chongqing and Sichuan took place with the support of Qing emperor.*

Chongqing also houses Consulates General for the UK, France, Japan, the US and Germany (amongst others) and, in 1891 became the first inland port open to foreigners. In February, 2010 it was designated one of the five National Central/Core cities along with Beijing, Shanghai, Guangzhou and Tianjin

Chongqing may well be the most important city in China nobody had heard of - at least not until the recent events surrounding Bo Xilai's ouster as Party Chief - and, putting aside the debate over whether China is in for a hard landing or some form of the fabled 'Goldilocks' outcome, the events in that part of China potentially represent the biggest chance of an unexpected surge by 'Chinese Dirty Laundry' upsetting both 'Recovery' and 'Return to Growth'.

We have covered Bo's spectacular fall from grace in recent editions of this form guide, but with the 18th NPC still six months away, the smouldering wreckage of Bo's political career could potentially reignite without warning and cause all kinds of trouble.

2012 marks only the third time since the ouster of Chiang Kai Shek's Kuomintang (KMT) by the Communist Party of China (CPC) in 1949 that both US elections and China's National Party Congress (NPC) will be held in the same year - this time within weeks of each other. The last two such events were each of significance to China in their own way.

1992 saw Bill Clinton defeat George H.W. Bush in the US whilst a few weeks earlier, the 14th Congress in China was the first since the retirement of Deng Xiaoping and the tragic events of Tiananmen Square. Jiang Zeminin was installed as CPC General Secretary and Hu Jintao made his first appearance on the Politburo Standing Committee.

In 1956, Dwight D. Eisenhower's re-election in a landslide over Adlai Stevenson, was preceded by the 8th Chinese NPC at which 'Mao Zedong Thought' was removed from the constitution and Deng first gained real prominence.

The period immediately following 8th Congress was one of tremendous upheaval in China as the Great Proletarian Cultural Revolution culminated in a purge of the vast majority of those in political power. Deng was labeled a 'traitorous scab and renegade' and removed from office while Mao's closest comrade-in-arms, Lin Biao (not to be confused with Happy Days' Scott

Baio) was designated as his successor.

Despite Nixon's landmark visit to China, The Gang of Four seized power and plunged China deeper into isolation and internal turmoil until a PLA-led coup toppled them in October 1976 - restoring Deng to prominence.

Whatever IS going on in the corridors of Chinese power is unknown to the West, but what is for certain is that SOMETHING is happening and the chances that this something could be both surprising and significant are, for the time being at least, of far more importance in the wider context than the economic data being released by the Chinese government.

People often ask me whether we can believe Chinese economic numbers and my answer is always the same:

No. Of course we can't. BUT, in their way, Chinese figures possess an honesty that you won't find in supposedly legitimate Western numbers.

The Chinese aren't big on revisions or seasonal adjustments like their peers in the West, but, most importantly, there is *always* a message implicit in official Chinese communications. The recent growth number just below 8%, for example, is China's way of saying "things are slowing, but not in a disastrous way. Lower your expectations, but understand that we are in control of this".

The Official PMI reading showing mild expansion - in direct contradiction to the HSBC version which showed contraction - was a message that the Chinese SoE sector is strong and receiving the government support it needs to continue expansion - albeit at a slower pace.

Whatever official news comes out of China regarding the fallout from Bo Xilai's eviction from power will need to be watched extremely carefully so we can understand exactly how this horse is likely to run. Events of a political nature could very easily spur Chinese Dirty Laundry past the rest of the field.

In the interests of not taking up too much more of your time, a few other horses with the potential to upset 'Recovery' and 'Return to Growth' are listed below with a brief form guide:

BROKEN BRITAIN

Jockey: Cameron Clegg

Form: --0783-0

Previously a thoroughbred, this nag has fallen on slender times of late and continues to flatter to deceive. Tough talk out of the stable has attracted a lot of dumb money but an outside chance to cause a big upset means many a wary eye should be focused here.

The UK's 'fauxsterity' program has done nothing to settle her debt problems and the figures for the next couple of years make horrible reading (see Things That Make You Go Hmmm..... March 25 2012).

GRECIAN EARN

Jockey: Angela Merkel

Form: --0783-0

This once mighty horse collapsed last year and was lucky not to be shot on the course. Instead, an international medical team worked tirelessly in an attempt to salvage something many thought fit only for glue. Running again, though with something of a limping gait, this horse has *been largely forgotten. Punters shouldn't completely write off it's chances of having a say in the outcome.*

Greece's exchanged bonds are currently trading at €0.1825 implying a further default is all but inevitable. I have said it before, I will say it again; Greece will ultimately be forced to exit the euro - the only question is; will it be an orderly exit?

SETTING SUN

Jockey: Father Time

Form: --0783-0

A prolonged slump in form has caused most punters to give up on this horse completely, despite it's strong pedigree. A long line of weak jockeys and a poor trainer who has shown a tendency to stick with methods that have been proven not to work have made this horse a huge disappointment to many punters.

Japan's twin debt and demographic nightmares will eventually come home to roost and when they do, the results will be a whole new kind of ugly. We aren't there yet, but each day that passes sees Japan's demographic time-bomb get closer to detonation and when the end comes, it will be swift and brutal.

BLACK BEAUTY

Jockey: Unknown

Form: --??--??

A real dark horse this one and nobody knows whether it will enter the race, how it will run if it does or who will ride it. Last ran back in 2008 when it notched up a stellar season with big wins in both March and September. A really tough one to handicap.

Potential Black Swan events are myriad - ranging from an attack on Iran to an overthrow of the Saudi government to increased belligerence from the new regime in Pyongyang, multiple sovereign downgrades or an oil shock.

Coordinated recessions in the US and the Eurozone can't be ruled out and nor can a collapse of the dollar, civil unrest in Russia or more geological events such as those seen in Fukushima last March.... in short, the list is long.

To sum up; it is still anybody's race and the best we can do is hope that neither 'Recovery' nor 'Return to Growth' end up flat on their belly as another, far less fancied horse storms by them.

Once again I have taken up way too much of your valuable time so I shall leave you alone to discover what awaits you in the pages of Things That Make You Go Hmmm..... this week.

You will find gold, Spain, Greece, German solar companies, Easter eggs, Gulf oil consumption, John Mauldin, Ambrose Evans-Pritchard, Ted Butler, a professor wearing a cowboy tie, Niall Ferguson, charts, more charts, Blythe Masters, more charts and some black & white footage of a horse race run over 50 years ago.

Until next time.....

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09 April 2012

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And Finally.....

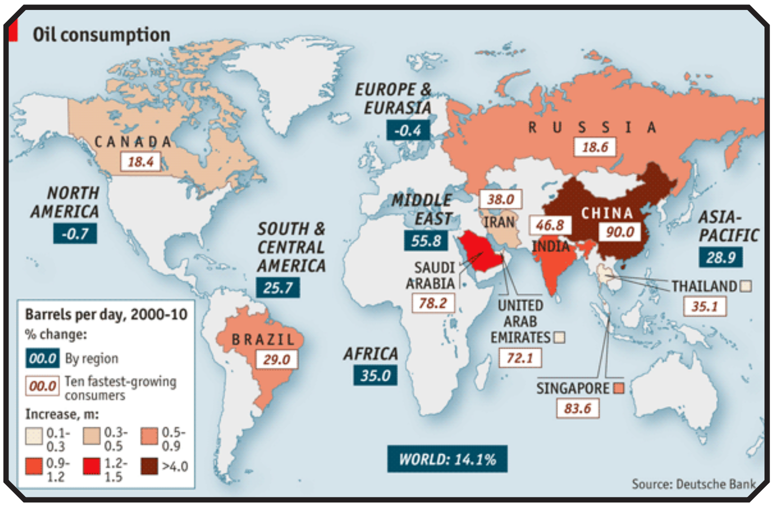
Everyone knows why oil prices, at around $125 for a barrel of Brent crude, are so high. The long-term trends are meagre supply growth and soaring demand from China and other emerging economies. And in the short term, the market is tight, supplies have been disrupted and Iran is making everyone nervous.

Saudi Arabia, the only OPEC member with enough spare capacity to make up supply shortfalls, is the best hope of keeping the market stable. The Saudis recently reiterated their pledge to keep the market well supplied as American and European Union sanctions hit Iran. Over time, other producers in the Persian Gulf may be able to pump more. Iraq—and Iran itself—have vast oilfields that could eventually provide markets with millions more barrels a day (b/d). All this is conventional wisdom.

Yet these calculations do not take account of the region's growing thirst for its own oil. Between 2000 and 2010 China increased its consumption of oil more than any other country, by 4.3m b/d, a 90% jump. It now gets through more than 10% of the world's oil. More surprising is the country that increased its consumption by the second-largest increment: Saudi Arabia, which upped its oil-guzzling by 1.2m b/d. At some 2.8m b/d, it is now the world's sixth-largest consumer, getting through more than a quarter of its 10m b/d output.

Saudi Arabia is not the only oil-producer that chugs its own wares. The Middle East, home to six OPEC members, saw consumption grow by 56% in the first decade of the century, four times the global growth rate and nearly double the rate in Asia (see map).

Energy use per head is also rising. According to BP, in 1970 in the Middle East it was half what it was in other emerging markets. By 2010 it was three times higher. Global oil consumption stayed at roughly 4.6 barrels a head annually between 2000 and 2010, but the average Iranian and Saudi was getting through roughly 30% more by the end of the decade. The Saudis consume 35.1 barrels each. Overall energy consumption per head, at 7.3 tonnes of oil equivalent, is roughly the same as in America (see chart), which is much richer.



SOURCE: DEUTSCHE BANK/ECONOMIST

There are three explanations for this growing taste for oil. The first is demography. Populations in the Persian Gulf, and in OPEC as a whole, are growing fast. Tiny Qatar's population trebled between 2000 and 2010. Saudi Arabia's grew from around 20m to 27.4m, a 37% increase. Demand for power, water and petrol has risen accordingly. Saudi power-generating capacity has doubled in the past decade. Partly this is to mitigate the fearful heat: according to a report from Chatham House, a think-tank, air-conditioning units soak up half of all power generated at peak consumption periods.

ECONOMIST / LINK

For those tucking into Easter eggs this weekend, a report that supermarkets are raising the price of the chocolate treat as cocoa prices are falling will leave a bitter taste in the mouth.

Despite cocoa prices tumbling by a third in just a year, some easter eggs have doubled in price, research by comparison website mySupermarket has shown.

The site claims that the price of Tesco's own brand 200g Milk Chocolate Egg Hunt Bag has risen 100pc from £1 to £2; Nestle's Retro Smarties Mug and Egg cost £4.99 two years ago at Tesco but is now £7 at the same store; and Lindt's 500g Gold Bunny at £15 in Tesco and Asda is 50pc more expensive than two years ago.

Cash-strapped customers will be wondering why prices are rising when the cost of cocoa in top producer areas, including the Ivory Coast, continues to fall.

Cocoa producers blame droughts for causing beans to shrink, putting off buyers.

"There are big buying warehouses that have closed because, not only is there no cocoa, but the small amount coming in is of bad quality," said Abel Konan, who farms near Daloa. "The buyers say our beans are very small, black and contain no chocolate."

James Foord at mySupermarket, said: "Although cocoa prices have fallen over the past two years, Easter egg prices have continued to rise, partly due to the effects of inflation on chocolate brands' businesses."

MySupermarket advises customers to shop online and be wary of excess packaging, which might make the chocolate egg inside look bigger than it it really is.

UK DAILY TELEGRAPH / **LINK**

Hello Mish

I have spared you having to read the attached 195 page sleeping pill and I have discovered a major problem.

The first disbursement to Greece was on March 20. Disbursements are paid quarterly and no sooner, which effectively means that June 20 is the earliest next disbursement due date. Greece was originally supposed to receive 74 billion in the first tranche,(Page 56 on the document), it received 7.5 billion. Someone needed to put the decimal point one place to the right.

We know Greece is insolvent and it raided University accounts held at the Bank of Greece to effect the March bond swap.
We know the bond swap offer (450 million Euro) for issue XS0147393861 was rejected and is payable on May 15 (6 Weeks to go).

6 WEEK TREASURY BILLS

UCTION DATE	ISSUE DATE	MATURITY DATE	AMOUNT AUCTIONED	AMOUNT OFFERED	AMOUNT ACCEPTED	UNIFORM YIELD
11-Jan-11	14-Jan-11	15-Jul-11	1,500	5,100	2,400	4.90%
8-Feb-11	11-Feb-11	12-Aug-11	300	1,363	480	4.64%
8-Mar-11	11-Mar-11	9-Sep-11	1,250	4,485	2,000	4.75%
12-Apr-11	15-Apr-11	14-Oct-11	1,250	4,758	2,000	4.80%
10-May-11	13-May-11	11-Nov-11	1,250	4,474	2,000	4.88%
14-Jun-11	17-Jun-11	16-Dec-11	1,250	3,225	2,000	4.96%
12-Jul-11	15-Jul-11	13-Jan-12	1,250	3,600	2,000	4.90%
9-Aug-11	12-Aug-11	10-Feb-12	625	1,913	1,000	4.85%
6-Sep-11	9-Sep-11	9-Mar-12	1,000	3,020	1,455	4.80%
11-Oct-11	14-Oct-11	17-Apr-11	1,000	2,725	1,600	4.86%
8-Nov-11	11-Nov-11	11-May-12	1,000	2,910	1,600	4.89%
13-Dec-11	16-Nov-11	15-Jun-12	1,250	3,660	2,000	4.95%
10-Jan-12	13-Jan-12	13-Jul-12	1,250	3,495	2,000	4.90%
7-Feb-12	10-Feb-12	10-Aug-12	625	1,701	1,000	4.86

CLICK TO ENLARGE **SOURCE:** EC

Somehow it has to pay this before the next tranche.

Of the 7.4 billion it received in the first tranche a Greek government official stated that "Greece would use this money to pay 4.66 billion euros to the European Central Bank and other eurozone national central banks for the capital amount of a three-year bond that expired yesterday".

This leaves 2.74 billion over 3 months to survive with. Even if you believe the 1% deficit for 2012 forecast (complete nonsense on page 99) Greece is in arrears 1.25 billion per month. This consumes entirely the remaining distributed money from the EU & IMF. Plus there is 5.2 billion Euros of Treasury bills *due in April and May.*

Below is my favorite line from the document.

However, the disbursements to Greece by the EFSF and the IMF will still be conditional on compliance with conditionality.

Why even bother?

Regards

Brett

MIKE SHEDLOCK / **LINK**

It wasn't so long ago that people viewed Q-Cells as an energy company of the future. At one point, it was the world's largest manufacturer of solar cells and quarter after quarter, it topped analysts' expectations. The company proved to be a money-making machine even during the financial crisis, with some believing it might one day grow to become part of Germany's DAX index of benchmark companies on the stock exchange.

At the end of 2007, the company was valued at close to €8 billion ($10.7 billion at today's rates). Q-Cells' production facilities were located in the city of Bitterfeld-Wolfen, in a former lignite mining area in the eastern German state of Saxony-Anhalt. The area was even dubbed "Solar Valley," a play on California's Silicon Valley.

"... For a some time now, though, the days have been growing darker in Solar Valley, and with this week's bankruptcy announcement by Q-Cells, things are looking to get even darker"

For a some time now, though, the days have been growing darker in Solar Valley, and with this week's bankruptcy announcement by Q-Cells, things are looking to get even darker. On Tuesday, the company as expected submitted its official request to begin bankruptcy proceedings. The energy company of the future looks as though it may no longer have one. The company, it turns out, simply wasn't prepared for the fast changes that have buffeted the industry.

In 2011, Q-Cells posted a loss of €846 million. As of last Tuesday, the firm had a marginal value of only €35 million and Q-Cells' share price had plunged to just 9 cents. In Bitterfeld-Wolfen, concerns are growing about massive job losses among the 2,200 Q-Cells workers in the city.

But Q-Cells' insolvency also comes as a great shock to the Germany's solar industry. It is already the fourth major bankruptcy in a sector in crisis, and it underscores the degree to which German solar firms are being outpaced by competition from Asia -- despite billions in German government subsidies granted each year to the industry. And despite solar energy gradually becoming more competitive, the setbacks are rapidly mounting.

In December 2011, two major solar companies slid into bankruptcy: Berlin-based Solon and Erlangen-based Solar Millennium. In the case of Solon, Indian firm Microsol acquired the core business; but of the company's 1,000 employees, only 400 remain employed today. Solar Millennium's bankruptcy came as a major blow to thousands of small investors who had lent the firm money.

In March 2012, Freiburg-based Scheuten Solar, the firm that presented what was the world's largest solar module at the time eight years ago, declared bankruptcy. The same month, power plant producer Solarhybrid and the Frankfurt an der Oder-based Odersun, which had been prestige projects supported by political leaders in the eastern state of Brandenburg, also filed for insolvency proceedings. Other bankruptcies are likely to follow.

The worst hit in the German solar crisis are companies that made bad business decisions. Most of the companies effected failed to wean themselves from reliance on government subsidies. The companies had all been aware that the market was rapidly changing, but they reacted too late or too slowly. Solar subsidies had been a highly effective political means of promoting the environmentally friendly technology, but in a rapidly maturing market, they are quickly losing their impact.

And the problem isn't the recent cuts to solar subsidies. The problem has been mismanagement across the industry in Germany.

★ ★ ★ *DER SPIEGEL* / **LINK**

Thousands of United

States' warplanes, ships and missiles contain fake electronic components from China, leaving them open to malfunction, according to a US Senate committee.

The US Senate Armed Services Committee said its researchers had uncovered 1,800 cases in which the Pentagon had been sold electronics that may be counterfeit.

In total, the committee said it had found more than a million fake parts had made their way into warplanes such as the Boeing C-17 transport jet and the Lockheed Martin C-130J "Super Hercules".

> ".. The US Senate Armed Services Committee said its researchers had uncovered 1,800 cases in which the Pentagon had been sold electronics that may be counterfeit.

It also found fake components in Boeing's CH-46 Sea Knight helicopter and the Theatre High-Altitude Area Defence (THAAD) missile defence system.

"A million parts is surely a huge number. But I want to repeat this: we have only looked at a portion of the defence supply chain. So those 1,800 cases are just the tip of the iceberg," said Senator Carl Levin.

In around seven in 10 cases, the fake parts originated in China, while investigators traced another 20 per cent of cases to the United Kingdom and Canada, known resale points for Chinese counterfeits.

In the southern Chinese province of Guangdong, counterfeit microchips are often smuggled out of factories, or burned off old computer circuit boards before having their identifying marks sanded off and repainted as new.

In Chinese bazaars, "military grade" microchips are openly advertised, although these chips are often commercial chips that have been modified and relabelled.

Military grade chips are designed to withstand far greater extremes of temperature and humidity, and there are fears that the fake Chinese parts could suddenly fail.

"We cannot tolerate the risk of a ballistic missile interceptor failing to hit its target, a helicopter pilot unable to fire his missiles, or any other mission failure because of a counterfeit part," said John McCain, the senior Republican Senator on the committee.

Experts said the problems are not new, and have dated from a decision in the 1990s by the Clinton administration to cut costs by asking the Pentagon to buy "off-the-shelf" electronics, rather than designing its own systems.

★ ★ ★ *UK DAILY TELEGRAPH* / **LINK**

March saw "only"

120,000 jobs created. Expectations were for 200,000 new jobs. It wasn't all that long ago that any positive number would have been seen as good, but with the last six months averaging 200,000 jobs, this was disappointing. It gives force to the worry that once again we could see the employment numbers get soft during the spring and summer. And adding to interest in the topic, the employment numbers will take on a decidedly political tone this summer, as every poll shows that jobs and the economy is the #1 thing on voter's minds. This will be underscored only four days before the presidential election on Tuesday, November 6, as the jobs report for October is scheduled to be released on Friday, November 2. Think that one won't be analyzed more than usual? I keep writing that the current release is adjusted so often that it is hard to see more than a trend in the actual monthly releases, but that will not keep pundits from using the release to support their candidate with all the spin they can muster.

There is reason to believe that today's lower number was partially due to the weather being so good in the earlier part of the year, so that what is usually seasonal employment started earlier than is typical; so it might be better to average the last two months, which is still disappointing in that it barely stays ahead of population growth. At this rate it will be another three years before we get back to new employment highs, and that does not factor in any population growth. And it also assumes there is no recession in the meantime. Given that the US must start at some point to get its budget balanced, there is little hope that more government spending (aka stimulus) is on the way.

The Bureau of Labor Statistics churns out a massive amount of data each month. Let's look at one table and then discuss what we see. This is Employment Situation Summary Table A of the Household Data report, seasonally adjusted.

Category	Mar. 2011	Jan. 2012	Feb. 2012	Mar. 2012	Change from: Feb. 2012-Mar. 2012
Employment status					
Civilian noninstitutional population	239,000	242,269	242,435	242,604	169
Civilian labor force	153,392	154,395	154,871	154,707	-164
Participation rate	64.2	63.7	63.9	63.8	-0.1
Employed	139,764	141,637	142,065	142,034	-31
Employment-population ratio	58.5	58.5	58.6	58.5	-0.1
Unemployed	13,628	12,758	12,806	12,673	-133
Unemployment rate	8.9	8.3	8.3	8.2	-0.1
Not in labor force	85,608	87,874	87,564	87,897	333
Unemployment rates					
Total, 16 years and over	8.9	8.3	8.3	8.2	-0.1
Adult men (20 years and over)	8.7	7.7	7.7	7.6	-0.1
Adult women (20 years and over)	7.8	7.7	7.7	7.4	-0.3
Teenagers (16 to 19 years)	24.5	23.2	23.8	25.0	1.2
White	7.9	7.4	7.3	7.3	0.0
Black or African American	15.6	13.6	14.1	14.0	-0.1
Asian (not seasonally adjusted)	7.1	6.7	6.3	6.2	-
Hispanic or Latino ethnicity	11.3	10.5	10.7	10.3	-0.4
Total, 25 years and over	7.5	7.0	7.0	6.8	-0.2
Less than a high school diploma	13.8	13.1	12.9	12.6	-0.3
High school graduates, no college	9.5	8.4	8.3	8.0	-0.3
Some college or associate degree	7.4	7.2	7.3	7.5	0.2
Bachelor's degree and higher	4.4	4.2	4.2	4.2	0.0

SOURCE: BLS/MAULDIN

First, the unemployment rate fell by 0.1%, to 8.2%. But we see that the number of people who are actually employed dropped by 31,000, so how can the unemployment rate fall? Because the number of people looking for a job dropped by 164,000. If you aren't looking for a job, you are not considered unemployed. Thus the participation rate, or the number of adults either working or looking for work, dropped by 0.1% to 63.8%.

Note that this table shows 133,000 new jobs. This is the HOUSEHOLD report, which is the report created from a survey of households. The 120,000 new jobs number is from the ESTABLISHMENT report, which is a survey of established businesses, plus a guess as to the number of jobs created from new businesses that have been born in the last month, also known as the birth/death ratio. This month the birth/death number added 90,000 new jobs to the total number. The B/D ratio is a very volatile number. It is based on data from the last five years and is projected forward. Again, the unemployment number is taken from the household survey, and the new jobs number is taken from the establishment survey. While you can get a new jobs number from the household survey, it is notoriously volatile and essentially useless as a month to month indicator. As an example, it was 428,000 in February. Variations can run in the high hundreds of thousands month to month.

★★ *JOHN MAULDIN* / **LINK**

Spain's GDP in 2011 was €1.05 trillion (US$1.33 trillion). In 2012, as previously mentioned, the general consensus is that it will shrink by between 1.5% and perhaps as much as 2.5%; a figure of –1.75% seems reasonable.

Unemployment in Spain is 24%. Youth unemployment (under 24 years old) is a shocking 53%. Both figures will rise during 2012 as the economy continues to contract. An unemployment of 30% by year's end is within the realm of the possible. Hell, within the realm of the likely, even.

Total government debt is projected to be 79.8% of GDP in 2012—that is, €800 billion. Much more troublingly, the debt last year was "only" €680 billion—but that was still 21% higher than in 2010. So at this rate—assuming the status quo remains unchanged, and without factoring in the contraction of GDP—in 2013 the projected Spanish government debt could well rise to 90% of GDP.

(Throughout this Supplement, when discussing "government debt", I am referring both to Madrid's and to the autonomous regions' consolidated debt situation.)

Private debt is an additional 75% of GDP—and let's not even start talking about the delinquency rates—while the banks have a capital shortfall estimated at a mere €78 billion.

On top of all this—as if "all this" weren't bad enough—is the issue of the outstanding Spanish debt—

Spain has redemptions totalling €149 billion in 2012. It will issue a total of €186, with an eye to extend the maturity of the outstanding debt. But even with these concerted efforts, in 2012, the maturity of Spanish debt will in fact shrink from 6.4 years to 6.2 years. Add to that, in 2011, interest payments totaled €28.8 billion—up from €22.1 billion the year before. Why? Because of rising bond yields: Spain is considered riskier—due to the Troika's inability to finally "fix" Greece and Spain's own obvious domestic financial issues—and thus Spain has to pay more to borrow money.

"... Worldwide markets all got down on this auction—but here's the thing: Spain has a lot more of these auctions coming up—on average one every two weeks..."

In other words, Spain has fallen into the classic "borrowed-short-but-my-income-is-long-and-on-top-of-that-my-loans-are-getting-more-expensive" trap.

Last week, April 4, Spain's Treasury held a bond auction—and [boy] was it nasty: Of the expected €2.5 to €3.6 billion, Spain barely managed to get bids for €2.6 billion—and the yield on the 10-year spiked to 5.85%, before settling at a still-way-high 5.75%.

Worldwide markets all got down on this auction—but here's the thing: Spain has a lot more of these auctions coming up—on average one every two weeks.

They have to raise €186 billion in 2012.

And of the first of these, they had a quasi-failed auction.

One hundred eighty-six billion euros—in less than a year.

They're not going to raise that kind of money—simple as that. The April 4 auction was not an outlier—it's what's in the post for all of the next 17 auctions.

And the Germans—being the passive-aggressive d*cks that they are (my maternal grandmother is German-Danish—so I know whereof I speak)—will not allow the ECB to open the money spigot to Spain. Just like they did with Greece, Germany will dither, while all the while blocking money to Spain until it's too late.

Germany is thinking—in its passive-aggressive way—that it can string Spain along (just like it did Greece), and then save Spain at the last minute (just like Greece was sort-of saved).

But there's one difference: Spain is bigger—much bigger—than Greece. You can't pull an all-nighter and save Spain like they did Greece. You want to save Spain, you best be starting now.

Of course, they're not.

GONZALO LIRA / **LINK**

Until the rising reserve powers of Asia, Russia and the Gulf regain trust in the shattered credibility of the world's two great fiat currencies - if they ever do - gold is unlikely to crash far or remain in the doldrums for long. `Peak gold' cements the price floor in any case.

It has been an unsettling experience for latecomers who joined the gold rush near all-time highs of $1923 an ounce last September. The slide has become deeply threatening since the US Federal Reserve took quantitative easing (QE3) off the table six weeks ago - or appeared to do so - and signalled the start of a new tightening cycle. Spot gold ended the pre-Easter week at $1636.

"The game has changed," says Dennis Gartman, apostle of the long rally who now scornfully tells gold bugs that he is just a "mercenary", not a member of their cult. "They genuflect in gold's direction; we merely acknowledge that it exists as a trading vehicle and nothing more. There are times to be bullish, and times to be bearish ... to every season, as Ecclesiastes tells us."

Gold has risen sevenfold from its nadir below $260 in 2001, that Indian summer of American hegemony, when the 10-year US Treasury bond was the ultimate "risk-free" asset , and Gordon Brown ordered the Bank of England to auction half its metal.

The stock markets of Europe, America, and Japan churned sideways over the same decade, and that precisely is the clinching argument against gold for contrarian traders. You avoid yesterday's stars like the plague. "Gold is far too popular," said James Paulsen from Wells Capital. It has reached a half-century high against a basket of indicators: equities, treasuries, homes, and workers' pay.

Each interim low in price has been lower, and chartists tell us that gold's 100-day moving average has fallen through its 200-day average for the first time since March 2009. It is a variant of the `death's cross'. Ugly indeed, though Ashraf Laidi from City Index said the more powerful monthly trend-line remains unbroken.

"... There are two implications to this: central banks will have to keep printing money for a long time, and the Asian surplus powers - as well as Russia and the Gulf states - will have to find somewhere to park their growing foreign reserves"

Whether or not the global economy has really put the nightmare or 2008-2009 behind it and embarked on a durable cycle of growth is of course the elemental question. The answer depends on what you think caused the crisis in the first place.

If you think, as I do, that the root cause was the deformed structure of globalization over the last twenty years - a $10 trillion reserve accumulation by China and the emerging powers, with an investment bubble in manufacturing to flood saturated markets in the West, disguised for a while by debt bubbles in the Anglo-sphere and Club Med -- then little has changed.

In some respects it is now worse. China's personal consumption has fallen to 37pc of GDP from 48pc a decade ago. The mercantilist powers (chiefly China and Germany) are still holding on to their trade surpluses through rigged currencies, the dirty dollar-peg and the dirty D-Mark peg (euro), exerting a contractionary bias on output in the deficit states - though China at least recognizes that this must change.

There is still too much world supply, and too little demand, the curse of the inter-War years. That at least is the Weltanschauung of the pessimists. If correct, we face a globalized "Lost Decade", a string of false dawns as each recovery runs into the headwinds of scarce demand, and debt leveraging grinds on.

There are two implications to this: central banks will have to keep printing money for a long time, and the Asian surplus powers - as well as Russia and the Gulf states - will have to find somewhere to park their growing foreign reserves.

★ ★ ★ *AMBROSE EVANS-PRITCHARD* / **LINK**

Ted, you're widely recognized as the foremost expert on manipulation in the silver futures market. How do you define manipulation, and how are the main players benefiting from that?

Manipulation is another way of saying someone controls and dominates the market by means of an excessively large position. So, just by holding such a large concentrated position, the manipulation is largely explained. In real terms, whenever a single entity or a few entities come to dominate a market, all sorts of alarms should be sounded. This is at the heart of U.S. antitrust law. It is no different under commodity law.

Price manipulation is the most serious market crime possible under commodity law. In fact, there is a simple and effective and time-proven antidote to manipulation that has existed for almost a century, and that solution is speculative position limits. Currently, the Commodities Futures Trading Commission

(CFTC) is attempting to institute position limits in silver, but the big banks are fighting it tooth and nail.

As far as any benefits the manipulators may reap, it varies with each entity. But if you dominate and control a market by means of a large concentrated position, you can put the price wherever you desire at times, and that's exactly what the silver manipulators do regularly. This explains why we have such wicked sell-offs in silver; because the big shorts pull all sorts of dirty market tricks to send the price lower.

Could you tell us when and how you got started researching this matter?

It started around 1985, when a brokerage client asked me to explain how silver could remain so low in price (in the single digits) when the world was consuming more metal than was being produced. I accepted the intellectual challenge, and it took me more than a year to figure out that the paper short positions on the COMEX were so large as to constitute an almost unlimited supply. It was this paper supply that was depressing the price.

"... Together, the eight largest commercial silver shorts on the COMEX generally account for 50% to 60% of the entire net COMEX silver market"

Who are the main players in this manipulation scheme? On average, what percentage of COMEX silver contracts are "controlled" by these main players?

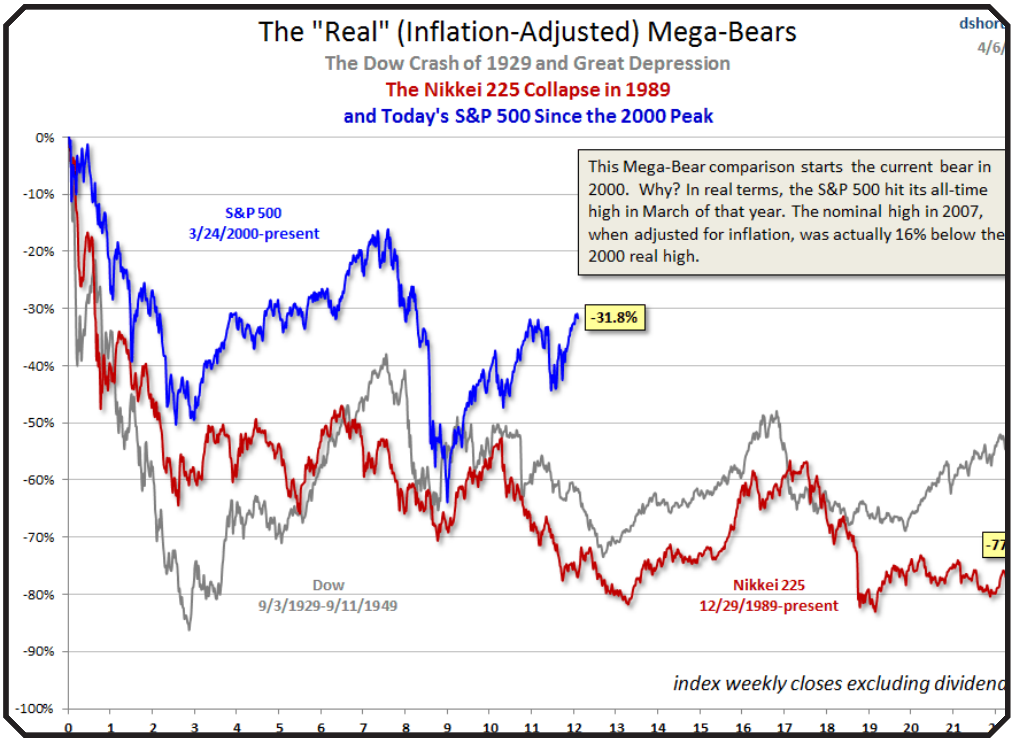
Under U.S. commodity law, the names of individual traders are kept confidential. However, it is no secret that the commercial traders are the big shorts. It is also no secret that these big commercial shorts are mostly money center banks and financial institutions. Based upon government data and correspondence, the largest such short almost certainly is JPMorgan Chase & Co. (NYSE: JPM), who inherited their big silver short position from Bear Stearns when JPM took over that firm in 2008.

Together, the eight largest commercial silver shorts on the COMEX generally account for 50% to 60% of the entire net COMEX silver market, with JPMorgan alone holding around 25% or more of the entire market. I would hold that those percentages of concentration and control constitute manipulation, in and of themselves. By the way, there is no comparable concentration on the long side; only the short side of silver.

What exactly are the dominant players doing to manipulate the price?

The current exact mechanism they use to suddenly rig the price lower is High Frequency Trading (HFT). This is the placing of sell orders in great quantities by computer programs that suddenly appear as legitimate orders, but are really mostly "spoofs," or orders entered and canceled immediately (in the fractions of a second). When the sell orders first appear, they spook others into selling as they give the appearance of great selling about to hit the market. Instead, it is all a bluff, intended only to scare others into selling, as the vast majority of these original sell orders are never executed, nor were they ever intended to be executed. They were designed for one purpose only - to scare others into selling.

★ ★ ★ *MONEY MORNING* / **LINK**



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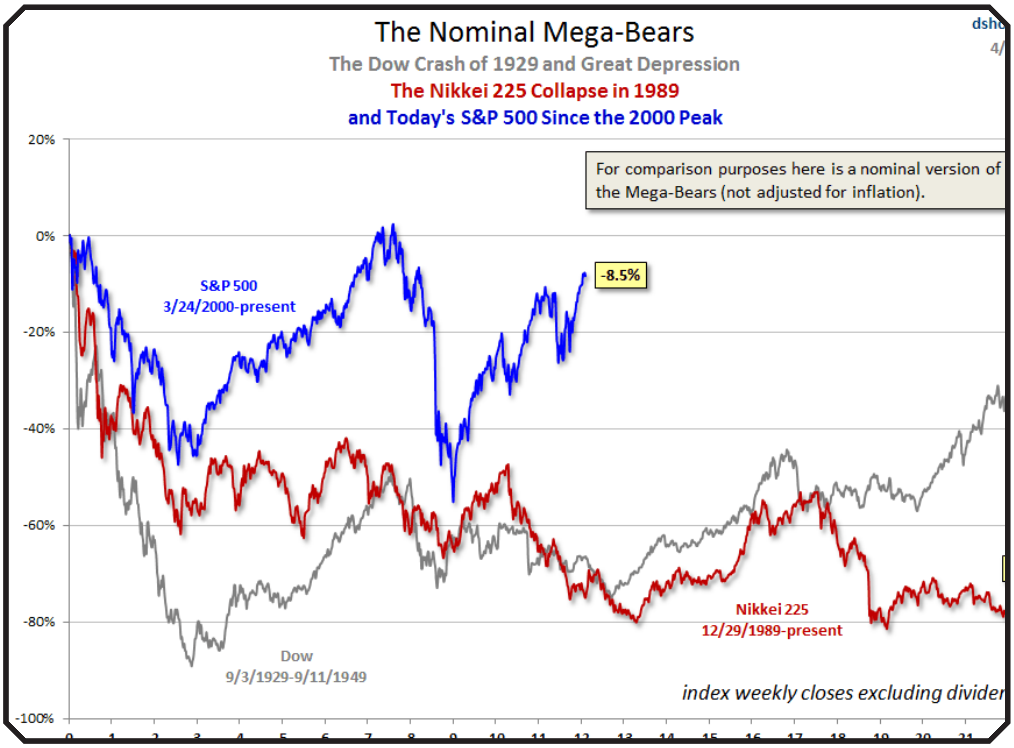


CLICK TO ENLARGE SOURCE: DSHORT

It's time again

for an update of our "Real" Mega-Bears, an inflation-adjusted overlay of three secular bear markets. It aligns the current S&P 500 from the top of the Tech Bubble in March 2000, the Dow in of 1929, and the Nikkei 225 from its 1989 bubble high.

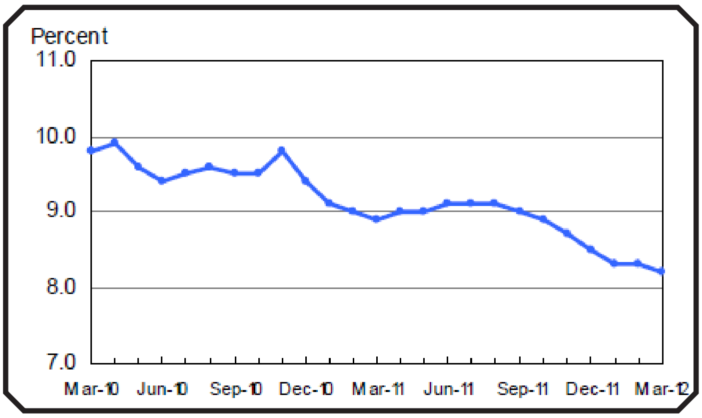
The chart [top, left] is consistent with my preference for real (inflation-adjusted) analysis of long-term market behavior. The nominal all-time high in the index occurred in October 2007, but when we adjust for inflation, the "real" all-time high for the S&P 500 occurred in March 2000.

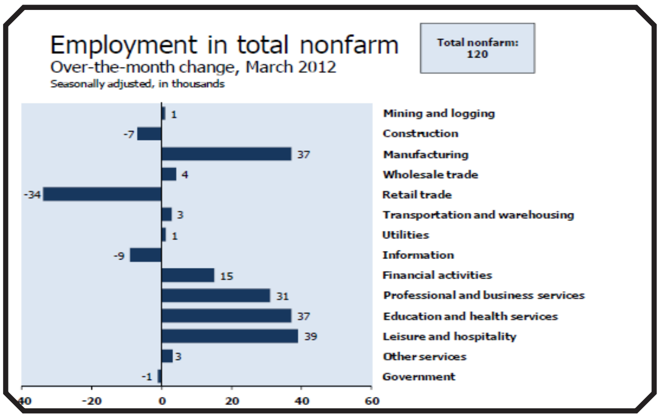
Here [left] is the nominal version to help clarify the impact of inflation and deflation, which varied significantly across these three markets.

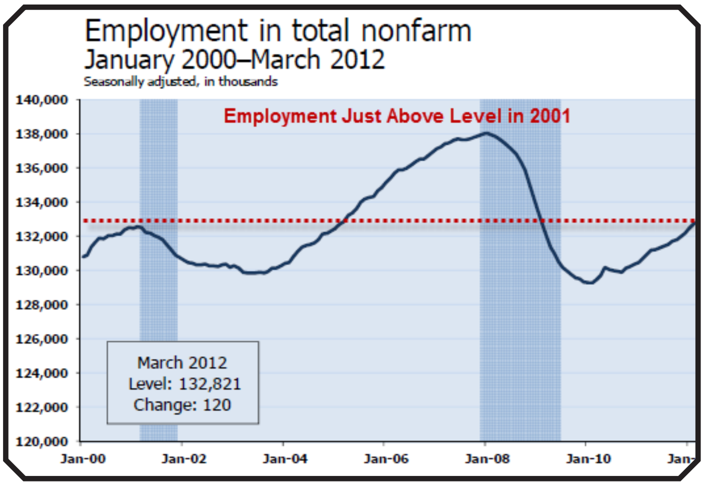
★ ★ ★ *DSHORT* / **LINK**

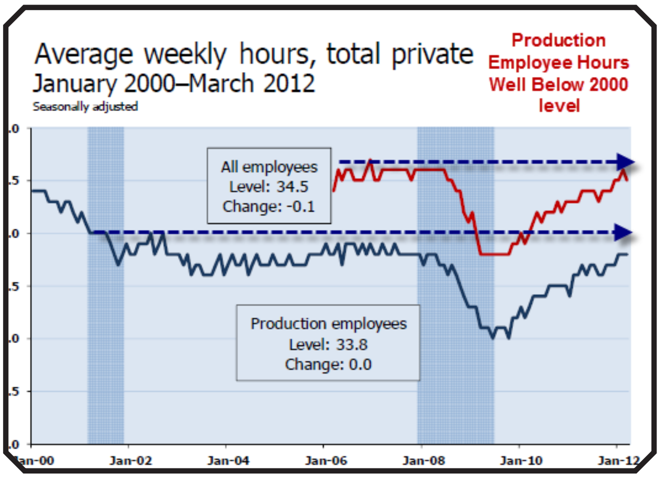
Want the low-down on last Friday's non-farm payrolls number? Mike Shedlock has just about every breakdwn you could possibly need to determine whether the number was good or bad...

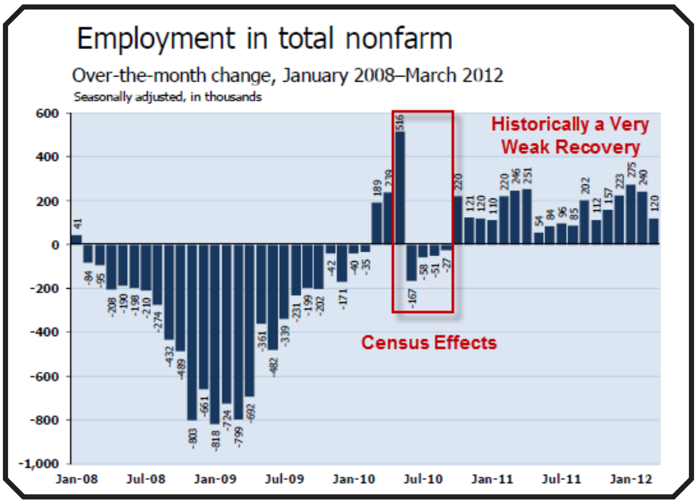
MIKE SHEDLOCK / **LINK**

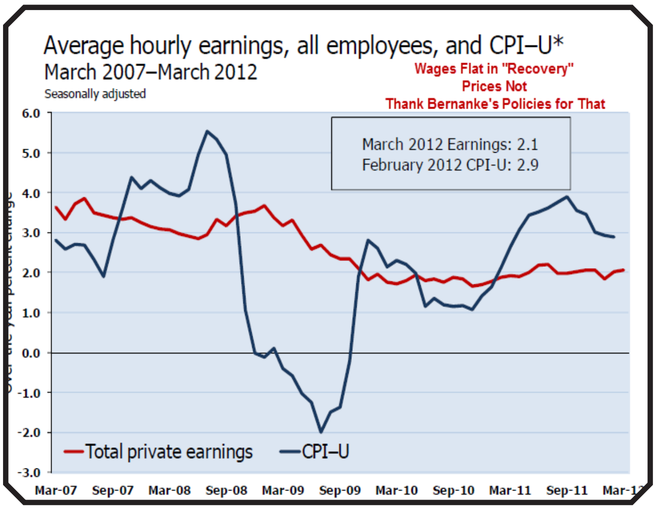












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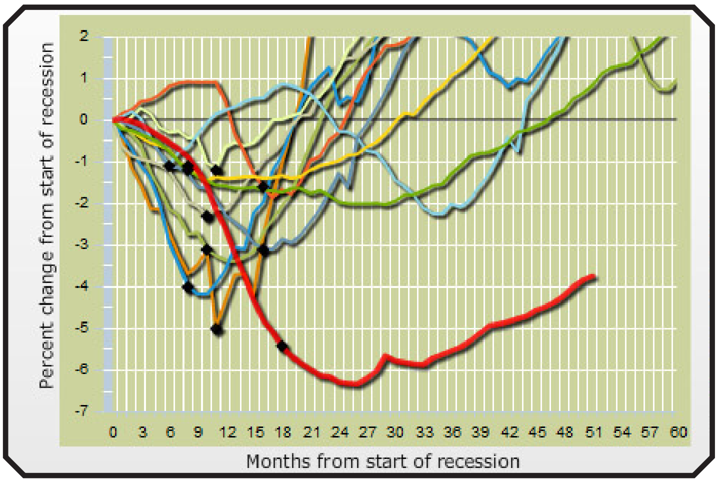
SOURCE: MIKE SHEDLOCK

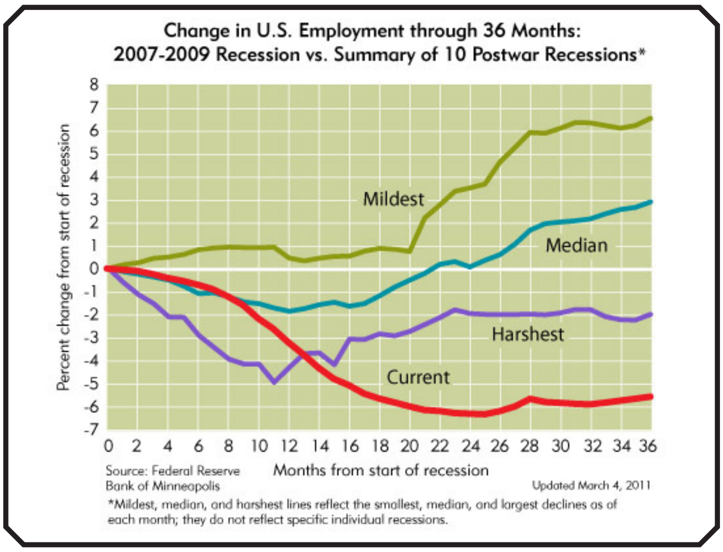
Recovery? What Recovery?

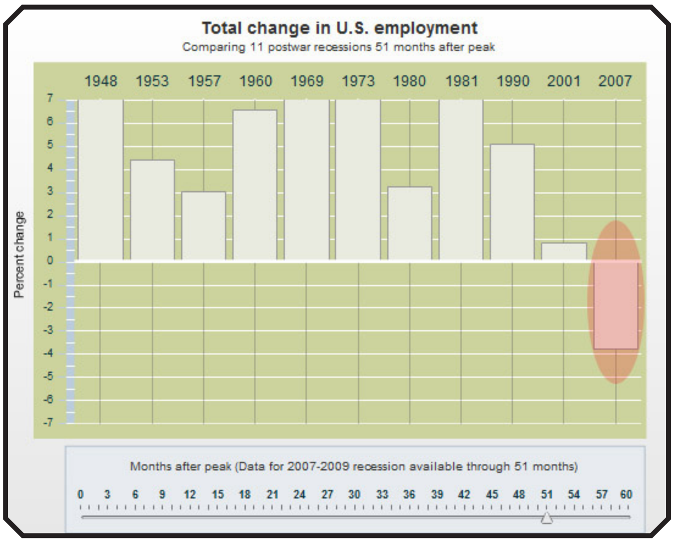
4 years after central banks have progressively injected over $7 trillion in liquidity into the global markets (and thus, by Fed logic, the economy), and who knows how many trillion in fiscal aid has been misallocated, to halt the Second Great Depression which officially started in December 2007, the US "recovery" is the weakest in modern US history! How many more trillions will have to be printed (and monetized) before the central planners realize that fighting mean reversion by using debt to defeat recore debt, just doesnt't work? Our guess - lots.

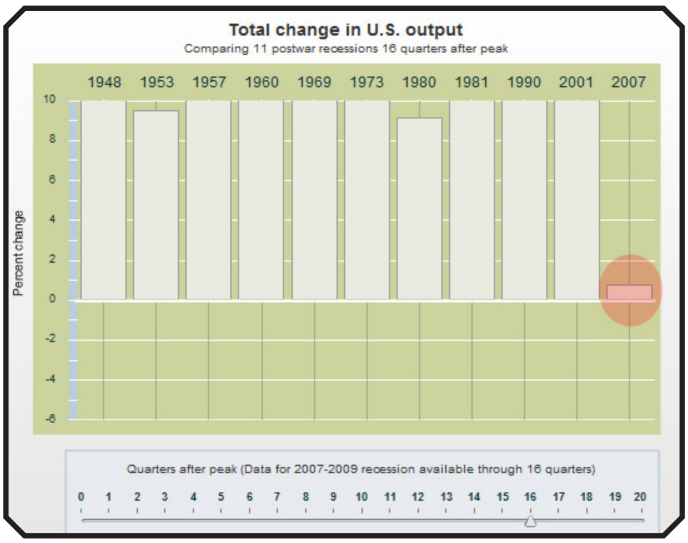
Incidentally, the US has now generated 3 million jobs since the trough of the recession in September 2010, until which point it had previously lost 8 million. Unfortunately, since the real labor force has grown by 4.6 million over the same period, or at the conventionally accepeted 90,000 labor pool entrants per month for 51 months, despite what the BLS may say, because America is after all growing, this means that the Obama administration has created a negative 1.6 million jobs net of demographics, which in turn have cost the US a modest $5.1 trillion in new debt, or an even modest $3.1 million in debt for every job lost.

★ ★ ★ *ZEROHEDGE* / **LINK**









CLICK ALL IMAGES TO ENLARGE

SOURCE: MINNEAPOLIS FED

CLICK TO WATCH

Niall Ferguson recently gave an outstanding presentation in Sydney entitled 'Empires On The Edge Of Chaos'.

Ferguson at his brilliant best.

A rare interview with Blythe Masters in which she addresses the claims against JPMorgan in the silver markets.

I will leave you to make up your own minds...

CLICK TO WATCH

Professor emeritus of Physics at Univ of Colorado-Boulder, Albert Bartlett's lecture on 'Arithmetic, Population and Energy' to a particularly disinterested group of students has graced the pages of this publication once before - a long time, and many new subscribers ago.

My good friend, Bob Fitzwilson sent me this clip again earlier this week (thank you, Bob) and it reminded me just how fantastic this lecture is. For those of you who HAVEN'T seen this before, enjoy it. For those of you who HAVE, remind yourselves just how brilliant simple mathematical logic can be.

Yes, there are eight parts to this lecture, but each of them is worth 9 minutes of your time I promise.

Part 2 Part 5

Part 3 Part 6

Part 4 Part 7

Part 8

CLICK TO WATCH

Fortunately for us, Pathe news was on hand at Aintree in 1956 to record the remarkable events of that day for posterity.

Here, in all its marvellous, clipped-toned glory, is how British news saw Devon Loch's sad de-nouement...

Hmmm…

SUBSCRIBE UNSUBSCRIBE COMMENTS

Grant Williams

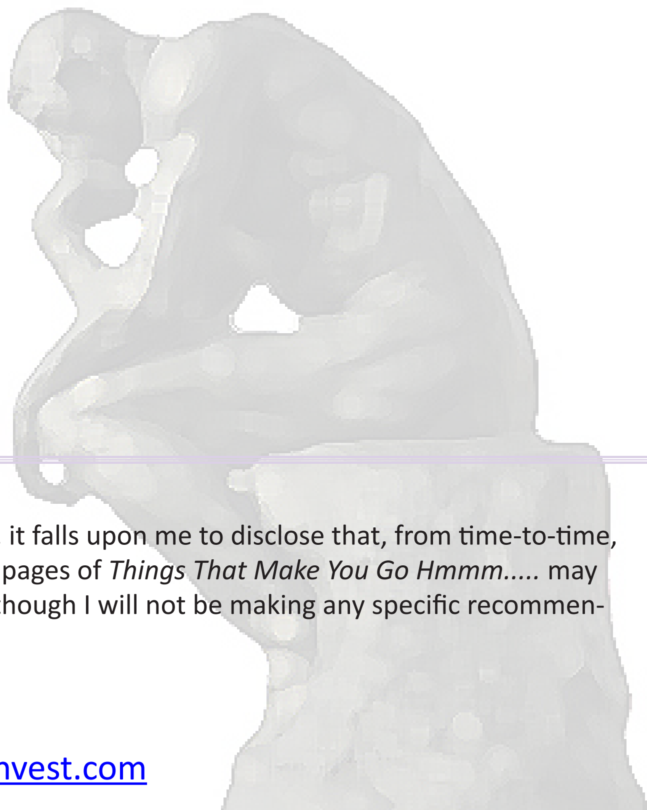
Grant Williams is a portfolio and strategy advisor to Vulpes Investment Management in Singapore - a hedge fund running $200million of largely partners' capital across multiple strategies.

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

www.vulpesinvest.com