THINGS THAT MAKE YOU GO Hmmm...

A walk around the fringes of finance

To Subscribe to Things That Make You Go Hmmm..... click **HERE**

"Acta est fabula, plaudite!"

(The play is over. Applaud!)

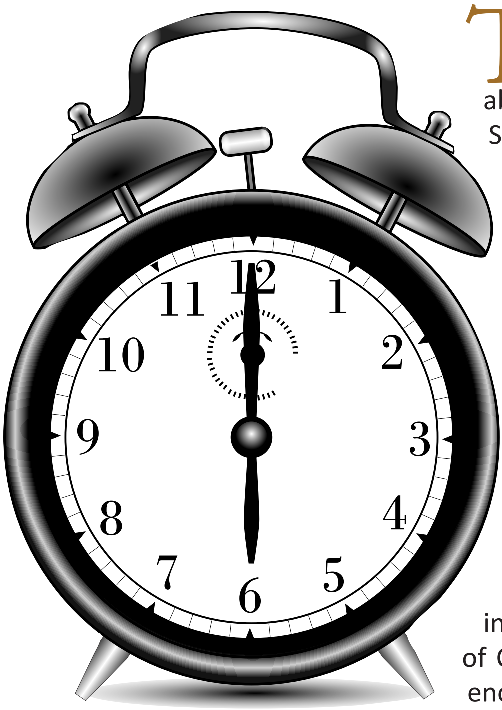
– AUGUSTUS CAESAR

"Get gold, humanely if you can, but at all hazards get gold"

– King Ferdinand V of Spain

"They say we're young and we don't know
We won't find out until we grow...
They say our love won't pay the rent
Before it's earned, our money's all been spent"

– "I Got You Babe, *Sonny & Cher*



This week houses one of the greatest days of any calendar year. It is a day eagerly-awaited by many around the world and provides just about the only employment for such characters as Staten Island Chuck, Smith Lake Jake, Balzac Billy and Sir Walter Wally. General Beauregard Lee makes his annual appearance as does Spanish Joe and even Dunkirk Dave, but each year, these would-be contenders have to bow down to the daddy of them all; the champion of champions, the one, the only, Punxsutawney Phil.

Yes, on Thursday, February 2nd, it was Groundhog Day again, when groundhogs and woodchuck, land-beavers and whistle-pigs are dragged from their burrows and cajoled into trying to see their shadow. Legend has it that, should the groundhog be able to see said shadow, it will retreat back into its burrow and prolong winter by a further six weeks whereas, if no shadow is to be found, Spring will come early.

The first Groundhog Day was celebrated in 1887 at Gobbler's Knob (EB) in Punxsutawney, Pennsylvania and had its origins in the ancient tradition of Candlemass. That year, in a stroke of sheer genius that would bestow enormous financial benefit upon his town for the next hundred years and counting, a newspaper editor belonging to a group of groundhog hunters from Punxsutawney called the Punxsutawney Groundhog Club declared that Phil, the Punxsutawney groundhog, was America's only true weather-forecasting groundhog. It really WAS that simple and this year, like many before it, literally tens of thousands of people will descend upon Gobbler's Knob (EB) to witness the 'prediction' of a 15lb ball of fur who has absolutely no clue what all the fuss is about:

> *(Wikipedia): Modern customs of the holiday involve celebrations where early morning festivals are held to watch the groundhog emerging from its burrow. In southeastern Pennsylvania, Groundhog Lodges (Grundsow Lodges) celebrate the holiday with fersommlinge, social events in which food is served, speeches are made, and one or more g'spiel (plays or skits) are performed for entertainment. The Pennsylvania German dialect is the only language spoken at the event, and those who speak English pay a penalty, usually in the form of a nickel, dime or quarter, per word spoken, put into a bowl in the center of the table.*

But wider familiarity with the event across the globe is due, in large part, to the eponymous 1993 movie, 'Groundhog Day', which starred Bill Murray as egocentric Pittsburgh weatherman Phil Connors who finds himself trapped in a timeloop on February 4th and proceeds to spend the bulk of the movie dreaming up all kinds of fanciful schemes only to end up with the same result; waking up at 6am to Sonny & Cher's "I Got You Babe".

February 2012 finds the world in its own timeloop as we remain trapped in our very own Groundhog Day watching politicians try endless new and inventive ways to 'fix' a simple problem of way, WAY too much debt. It isn't complicated. The world grew fat and happy on the sugar rush provided by a decades-long injection of cheap and easy credit and now it's time for the crash diet. Trying to avoid the 'crash' seems to be uppermost in everybody's mind.

Interestingly enough, the Fed's very own Groundhog Bailabankout Ben testified before the House

Committee on the Budget on February 2nd and, having been dragged from his burrow into the daylight, Ben saw all kinds of shadows:

> *While conditions have certainly improved over [the last two and a half years], the pace of the recovery has been frustratingly slow, particularly from the perspective of the millions of workers who remain unemployed or underemployed. Moreover, the sluggish expansion has left the economy vulnerable to shocks...*
>
> *The outlook remains uncertain, however, and close monitoring of economic developments will remain necessary...*
>
> *Although real consumer spending rose moderately last quarter, households continue to face significant headwinds. Notably, real household income and wealth stagnated in 2011, and access to credit remained tight for many potential borrowers...*
>
> *...we still have a long way to go before the labor market can be said to be operating normally. Particularly troubling is the unusually high level of long-term unemployment: More than 40 percent of the unemployed have been jobless for more than six months, roughly double the fraction during the economic expansion of the previous decade...*
>
> *Globally, economic activity appears to be slowing, restrained in part by spillovers from fiscal and financial developments in Europe. The combination of high debt levels and weak growth prospects in a number of European countries has raised significant concerns about their fiscal situations, leading to substantial increases in sovereign borrowing costs, concerns about the health of European banks, and associated reductions in confidence and the availability of credit in the euro area... risks remain that developments in Europe or elsewhere may unfold unfavorably and could worsen economic prospects here at home...*

The Fed's groundhog also kindly pointed out to the House Committee the task facing them:

> *Unfortunately, even after economic conditions have returned to normal, the nation will still face a sizable structural budget gap if current budget policies continue. Using information from the recent budget outlook by the Congressional Budget Office, one can construct a projection for the federal deficit assuming that most expiring tax provisions are extended and that Medicare's physician payment rates are held at their current level. Under these assumptions, the budget deficit would be more than 4 percent of GDP in fiscal year 2017, assuming that the economy is then close to full employment. Of even greater concern is that longer-run projections, based on plausible assumptions about the evolution of the economy and budget under current policies, show the structural budget gap increasing significantly further over time and the ratio of outstanding federal debt to GDP rising rapidly. This dynamic is clearly unsustainable.*
>
> *These structural fiscal imbalances did not emerge overnight. To a significant extent, they are the result of an aging population and, especially, fast-rising health-care costs, both of which have been predicted for decades...*
>
> *To achieve economic and financial stability, U.S. fiscal policy must be placed on a sustainable path that ensures that debt relative to national income is at least stable or, preferably, declining over time. Attaining this goal should be a top priority.*

And before opening the floor to questions, Bailabankout Ben threw one more log on the fire:

> *Although we cannot expect our economy to grow its way out of our fiscal imbalances, a more productive economy will ease the tradeoffs that we face and increase the likelihood that we leave a healthy economy to our children and grandchildren.*

Now, having decided to explicitly target an inflation level of 2% at their most recent meeting, the FOMC have ventured into territory that has been the graveyard of many a Central Banker - just ask the man with the UK's worst case of writer's cramp - Bank of England Governor, Mervyn King.

Back in December 2003, with the UK under the steady hand of Chancellor Gordon Brown and the last of Brown's gold sales in March 2002 nothing more than a distant memory, the UK adopted the Harmonised Index of Consumer Prices (HICP) as its benchmark inflation rate.

The yardstick (naturally dubbed 'Hiccup' by the UK press) was used by the ECB to set interest rates in the Eurozone and the idea was to bring the UK into line with European measures after Brown had officially declined to join the EU in June of that year.

At the time, it was said that, by adopting a common inflation measure, it would be easier to ascertain whether and when the UK economy had converged to the point whereby adopting the Euro would be successful.

Isn't hindsight wonderful?

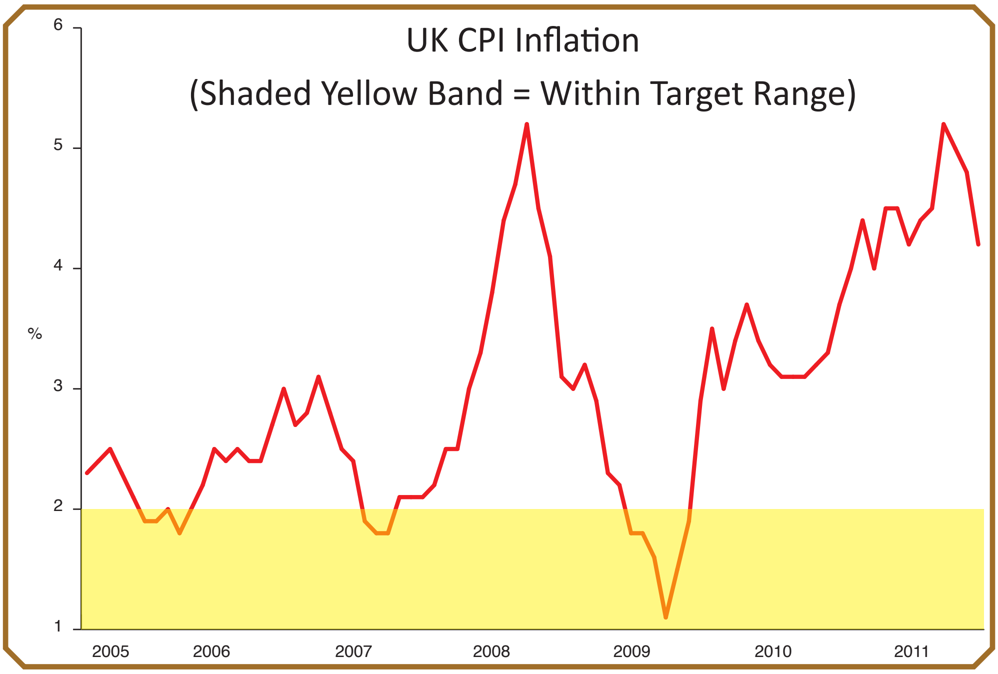
The largest difference between the new measure and the UK's existing RPIX was in how they quantified the effect of housing-related costs.

Previously, the RPIX had a far higher sensitivity to such costs but the HICP lessened them in an attempt to 'smooth out' the number...

At the time, the RPIX was running at 2.7% while the new HICP was a far more vote-friendly 1.4%.

So far, so good.

Of course, the adoption of a new benchmark for inflation meant the adoption of a new target as, had they kept the previous 2.5% limit, I dare say even the most soporific of journalists may have caught on.



SOURCE: TTMYGH/BLOOMBERG

And so, the Bank of England's current inflation target of 2% was adopted.

This had the immediate effect of loosening monetary policy with interest rates falling 0.25% - a side effect that many 'experts' felt would prolong the boom in UK property prices for a little bit longer - and that could only be a good thing.

The UK has a rather quaint system in place whereby, under the Bank of England Act of 1998, the Bank's Governor must write an open letter of explanation to the Chancellor of the Exchequer if inflation exceeds the target by more than 1% in either direction, and once every three months thereafter until prices are back within the allowed range. The letter should also set out what plans the Bank has for rectifying the problem, and how long it is expected to remain at those levels in the meantime.

As can be clearly seen from the chart (previous page), since mid-2005, the UK inflation rate has remained above the 2% target in 48 out of 79 months (a little over 60% for those of you keeping score) and includes King's current 'winning streak' of 25 straight months above the 2% threshold (the last 12 of which have been at least DOUBLE the targeted rate)..

In November of 2011, King sat down at his desk to fill in the blanks in the now-standard communication to explain why CPI inflation was running at (cough) 5% in October:

> *Dear Chancellor,*
>
> *The Office for National Statistics will publish data tomorrow showing that CPI inflation was 5.0% in October. In August I wrote an open letter to you because CPI inflation had remained more than one percentage point above the 2% target. As it is three months since I last wrote to you, and the rate of inflation is more than one percentage point above the target, I am writing a further open letter to you on behalf of the MPC...*
>
> *CPI inflation fell back to 5.0% in October. But it remains well above the 2% target. As described in previous letters and Inflation Reports, the current high level of inflation reflects the increase in the standard rate of VAT earlier this year, and previous steep increases in import and energy prices, including recent domestic utility price rises. In the absence of those temporary factors, it is likely that inflation would have been below the 2% target...*

Ah those 'temporary factors'

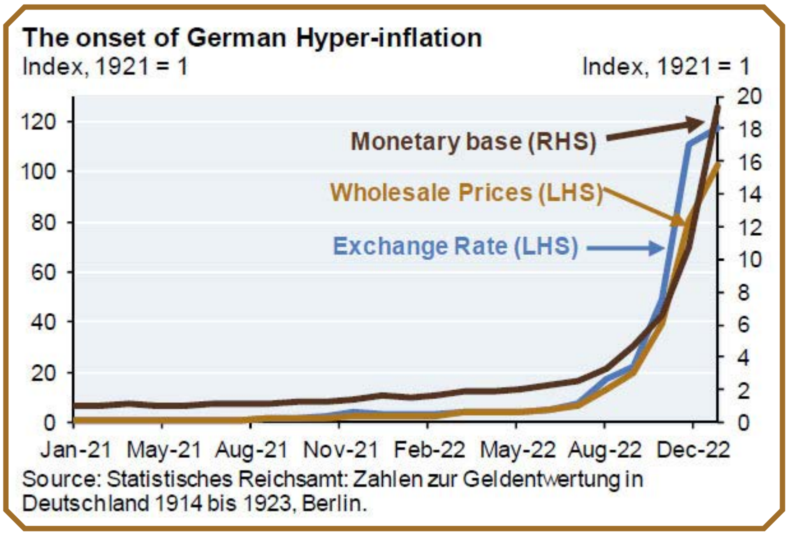
> **tem·po·rar·y** [**tem**-p*uh*-rer-ee] adjective, noun, plural -rar·ies.
>
> adjective
>
> 1. lasting, existing, serving, or effective for a time only; not permanent:

Of course, in the scheme of things, the Roman Empire was 'temporary'. But I digress.

King continued:

> *Since my previous letter, world growth has slowed and uncertainty about the prospects for the global economy, and in particular the euro area, has increased. Those developments, and accompanying falls in household and business confidence in the United Kingdom, are likely to have weakened the outlook for overall activity in the UK economy and so will probably lead to a greater and more persistent margin of spare capacity than previously thought. That made it more likely that inflation would undershoot the 2% target in the medium term, and is why, at its October meeting, the MPC voted unanimously to maintain Bank Rate at 0.5%, and to increase the size of its asset purchase programme by £75 billion...*

Inflation was likely to undershoot the 2% target 'in the medium term' and that is why, with inflation ***DOUBLE*** the target level, the BoE Monetary Policy Committee decided to increase the BoE's ~~Quantitative Easing~~ asset purchase programme by £75 billion. After all, inflation can always be controlled once it begins to become a problem, right?



CLICK TO ENLARGE SOURCE: COYOTEBLOG

Wrong.

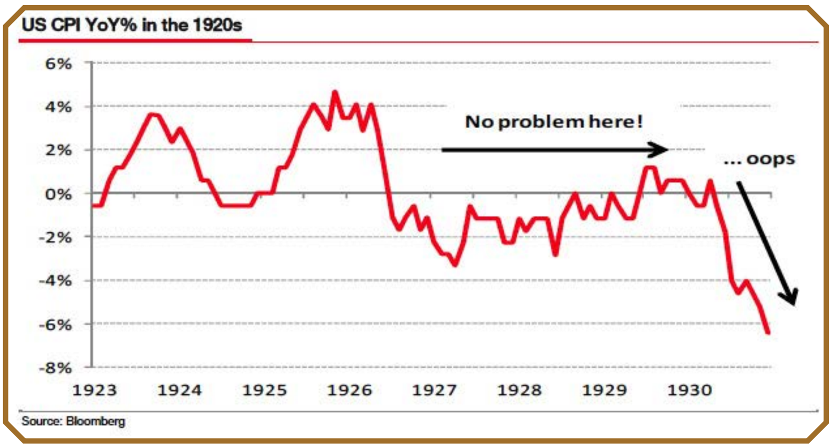
In late-1921, as the Central Bank of Weimar Germany bought government debt with newly-printed currency, everything looked 'under control'. I feel certain that, had he been required to write a similar letter to then-Chancellor Wilhelm Cuno at the time, Rudolf von Haverstein, governor of the Reichsbank's wording would have been eerily similar.

In a matter of no more than a few weeks, the controllable became anything but and, as you can see from the chart, left, prices exploded (along with money supply and the exchange rate).

(At this point, I will include my now-customary link to a free downloadable pdf of the wonderful book by Adam Fergusson "When Money Dies" which is absolutely required reading.)

The wonderful Dylan Grice of Soc Gen fairly bridled when commenting on the FOMC's move this week in his 'Popular Delusions' piece:

> *Flawed thinking got us into this mess. But rather than change that flawed thinking, our policy makers are applying it with even more rigour: we have more debt for insolvent borrowers, more financial engineering, more complicated banking regulations, more blaming speculators for everything, more monetary experimentation by central banks. Our policy makers have absolutely no idea what they're doing, but they're giving it a go!*
>
> *The latest from the Fed provides a wonderful example. Undeterred by the latest calamitous failure of CPI targeting regimes (a brief history of which will be presented below), it has announced an explicit 2% inflation target. But why? Would an explicit target have made any difference to the last crisis? Will it prevent the next one? And where did this 2% come from? We don't know. But we suspect that past uninformed capital market tinkering has failed to control the uncontrollable, and we're pretty sure these ones will too.*
>
> *In fact, if such tinkering has in the past been the primary causes of crises, then why won't this latest attempt - the 2% inflation target - be the cause of the next one? There are certainly precedents. Targeting stable 'prices' isn't a new idea. The first experiment was actually conducted in the US in the 1920s, apparently successfully. Indeed, so stable were consumer prices that the authorities assumed there was no inflationary threat. And, this brilliant new idea, that stable consumer prices were both a necessary and sufficient condition for economic stability, proved so appealing that the NY Fed adopted it as a policy objective.*

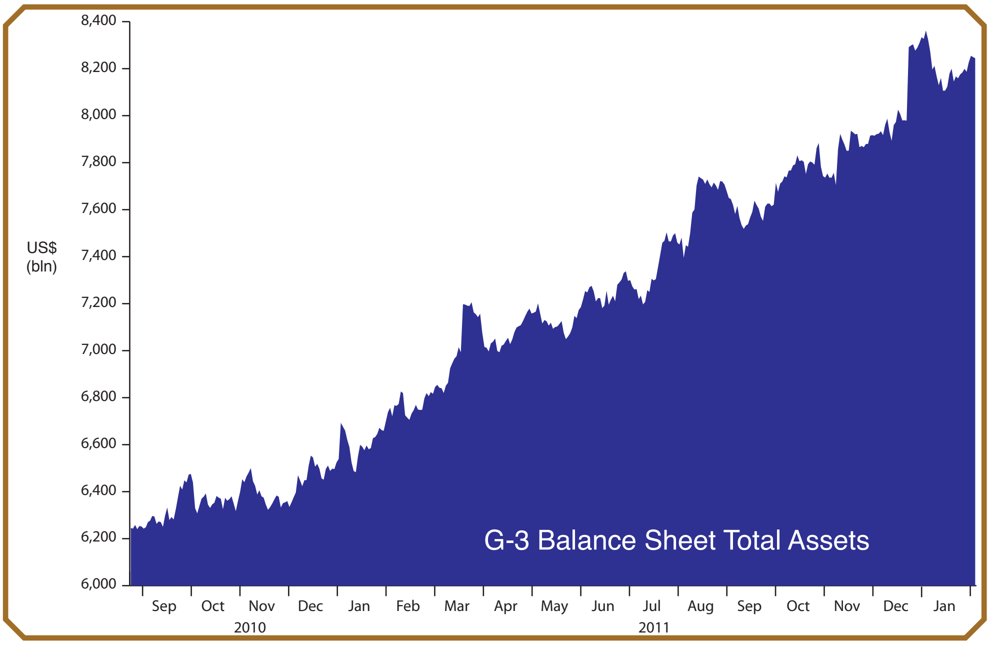


SOURCE: BLOOMBERG/SOC GEN

Dylan demonstrates how, during both Japan's Nikkei bubble of the 1980s and the NASDAQ bubble of the 1990s, the relative CPI remained benign throughout and concludes that the problem is one of being able to measure WHERE inflation is appearing rather than IF it is appearing at all:

> *Inflation targeting, it seems, has a history of fostering asset bubbles because the notion that a stable CPI equates to a robust economy contains numerous false premises.*
>
> *The first is that inflation is measurable. Einstein once had the words "not everything which can be measured counts, and not everything which counts can be measured" on the desk in his office at Princeton. And although the world might be simpler if it wasn't so, I believe 'inflation' happens to be one of the things which counts but can't be measured. The fact is that once money is created you don't know where it ends up. Maybe it will end up in the consumer goods market, maybe it won't. Or maybe it will be multiplied via the financial system into new credit which will inflate asset prices instead. Even then, we don't know which assets.*

And, in my mind, THIS is precisely the problem we face today.



SOURCE: BLOOMBERG/KEN LANDON/TTMYGH

Since 2008 and the bursting of the great credit bubble, central banks have been printing money hand over fist in a desperate attempt to generate the inflation they feel is necessary to drag the world out of a perceived deflationary spiral. The chart (left) shows the growth in 'assets' of G-3 Central Banks over the last 17 months alone, during which time, they have increased by 32%.

To date, the level of the various benchmark CPI indicators would suggest there have been no deleterious effects, but just because the results aren't showing up where those in charge of measuring them are LOOKING, doesn't mean they aren't showing up at all.

Look at food prices across Asia. Look at housing prices in Hong Kong. Look at fuel prices in Nigeria. Look at heating costs in the UK.

Look at gold.

Targeting inflation is a dangerous game to play because - well, because it is impossible. You cannot target 'inflation' per se, only a specific measure of a specific collection of items, and the wider that collection of items is, the harder you make it for yourself.

But despite what seems fairly obvious to many - namely that 'inflation' cannot be finely controlled by setting interest rates (though, if caught in time and tackled aggressively enough it can *sometimes* be tamed as Paul Volcker demonstrated), the minds in charge of setting policy have a peculiar attitude towards something that is so imprecise and so multi-faceted. The general level of certainty surrounding interest rate policy, quantitative easing and inflation amongst Central Bankers is a constant source of amazement to me.

The playbook for the game we are playing now was drawn up a long time ago and we can't say we weren't shown what lay between the covers.

As far back as November 2002, when Bailabankout Ben made his seminal speech to the National Economists' Club, we were told how this was going to play out.

Firstly, the title:

Deflation: Making Sure "It" Doesn't Happen Here

'Sure'? Hard to see how you can be 'sure' Ben, but OK.

Secondly, this famous nugget with which most of you are no doubt familiar:

> *"The conclusion that deflation is always reversible under a fiat money system follows from basic economic reasoning."*

'Always'. 'Basic economic reasoning'.

Thirdly, the big one:

> *...the U.S. government has a technology, called a printing press (or, today, its electronic equivalent), that allows it to produce as many U.S. dollars as it wishes at essentially no cost. By increasing the number of U.S. dollars in circulation, or even by credibly threatening to do so, the U.S. government can also reduce the value of a dollar in terms of goods and services, which is equivalent to raising the prices in dollars of those goods and services. We conclude that, under a paper-money system, a determined government can always generate higher spending and hence positive inflation...*

And finally, this little nugget

> *If we do fall into deflation, however, we can take comfort that the logic of the printing press example must assert itself, and sufficient injections of money will ultimately always reverse a deflation.*

Three quotes. Three uses of the word 'always'.

If something is 'always' guaranteed to work, you just keep doing it until you get the result you expected, right.

Right?

The inflation warning light that is built into the gold price has been flashing non-stop for eleven straight years and, after the short-lived and, yes I'll say it, somewhat suspicious-looking correction in December, gold has resumed its inexorable march higher this year amidst a wave of predictions for both high and higher prices and further inflationary action by the ECB in the form of the LTRO along with consistent and concerted talk of the need to generate inflation by the world's other Central Banks.

(Incidentally, the recent announcement by the FOMC that they would keep their low rate policy for ANOTHER year - out to 2014 - struck me as incredibly strange. The only possible reason for doing that, in my mind at least, would be to fire a shot across the bow of other Central Banks hell-bent on debasing their currencies in the face of a strengthening dollar. That is NOT something Bailabankout

Ben is about to sit quietly and let happen. In fact, a case could be quite easily made for QE3 being not necessarily triggered by poor economic numbers, but by a strengthening dollar - but more of that another time).

Gold is most certainly NOT signalling a nice 2% rise in inflation as its gains since 2000 demonstrate:

Year	Gold Price ($/oz)	% Change
2000	272.25	
2001	278.95	+2.46
2002	348.05	+24.77
2003	415.45	+19.36
2004	438.45	+5.53
2005	517.00	+17.91
2006	636.70	+23.15
2007	833.92	+30.97
2008	882.05	+5.77
2009	1096.95	+24.36
2010	1420.78	+29.52
2011	1563.70	+10.05
Average Yearly Gain		+17.62%

Whilst comparing gold's rise to that of the CPI is far too simplistic, the disparity between the two should certainly raise questions. One of them is a (reasonably) freely-traded commodity, and the other a government-produced statistical measure that is frequently subject to alterations in its methodology.

And yet...

Central Bankers the world over continue to believe they can repeatedly apply more monetary 'juice', safe in the knowledge that the outcome is 'always' assured based on 'basic economic theory'.

I beg to differ.

I shall leave it to Dylan to sum this up far more eloquently than I ever could, with the closing quote from the latest 'Popular Delusions':

...what if, like force-feeding steroids to a horse because you assume it should be running faster, in doing so you kill it, distorting the credit system so grotesquely as to crash the rest of the economy?

They've assumed that wouldn't be a problem, and they assumed that if there was one they'd be able to fix it (Ben Bernanke supposedly promised Milton Friedman that there would never be another great depression because the 'lessons' had been learned from the 1930s). But, assuming you know how the animal behaves isn't the correct way to go about attaining knowledge about how the animal actually behaves. So they don't attain knowledge about how the animal behaves. So the animal keeps mauling them.

But they keep doing it. Now a 2% CPI inflation target is going to make all the difference. And I find it a very strange thing. I just don't understand why they're so sure they know all this stuff despite all the evidence to the contrary. I feel like McCarthy in One Flew Over the Cuckoo's Nest: "That's right Mr. Martini, there is an Easter Bunny."

[Richard] Feynman said something else which I like. He said

"Ordinary fools are all right; you can talk to them, and try to help them out. But pompous fools - guys who are fools and are covering it all over and impressing people as to how wonderful they are with all this hocus pocus – that I cannot stand! An ordinary fool isn't a faker; an honest fool is all right. But a dishonest fool is terrible!"

I think he's right. Dishonest fools are terrible. It's a shame they're in charge.

This week I have been swamped trying to get ready for the [Cambridge House California Investment Conference] next weekend in Indian Wells and, my appearance at that event will, I am afraid, mean that you won't be hearing from me next week (unless you are in the California desert), but I leave you this week with plenty of reading material with which to entertain yourselves in the meantime.

I began this edition of Things That Make You Go Hmmm..... talking about Groundhog Day and nowhere is that phenomenon more evident than in the negotiations over the Greek PSI deal which, every day, seems to be hours away before relapsing to 'a matter of days' or 'next week'. We've heard it all before, but, as I have suggested many times in these pages, that really IS the end of the road you can see in the near distance. Greece has but weeks left before default and exit from the Euro and today we hear how the Eurozone has lost patience (again) with Greece and that they only have (another) 24 hours in which to fix the problem.

Elsewhere, a judge's ruling on sunken treasure looks like providing a welcome boost to the Spanish Treasury's coffers, the Bundesbank is sinking into debt trying to prop up the Eurozone (that won't last long), China's property market cools to arctic extremes and Japan's decline into relative obscurity is being hastened by the former laughing stock of Asian 'contenders' - Korea (South, not North, I hasten to add).

We take a look at Facebook's giant listing, Tyler and the gang at Zerohedge dig into the remarkable NFP number from Friday, Ambrose Evans-Pritchard picks apart the growing rift between France and Germany and Cris Sheridan is on alliterative FIRE as he ponders Markets, Murmurations & Machines.

Our charts look at Central Banks' exploding balance sheets, Europe's devastating debt mountain, and the Chinese work force as well as technology listings through the years and a very useful technical indicator.

Charles Biderman of TrimTabs has his own take on the NFP number, Chris Martenson posts a terrific interview with James Dines, and we head back to 1999 and a speech given by Sen. Byron Dorgan that will DEFINITELY make you go "Hmmm....."

That's all from me for another week, I'll leave you in the company of some of the best minds in the business.

Until next time...

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]

Contents

06 February 2012

It is one of the greatest underwater treasure troves of all time, a glittering haul of gold and silver recovered from a mysterious sunken Spanish galleon and secretly flown across the Atlantic to the US.

But now an epic battle over ownership of 594,000 gold and silver coins scattered on the ocean floor has ended with victory for the Spanish government, with the American treasure-hunter Odyssey Marine Exploration ordered to send the valuable haul back home.

A jubilant Spanish government announced on Wednesday that the $500m-worth (£308m) of gold and silver coins found at a site that Odyssey called "Black Swan" would be back on Spanish soil within 10 days.

"This sentence gives Spaniards back what was already theirs," said the culture minister, José Ignacio Wert. "There is a space of 10 days in which the coins must be returned."

"... Rightful ownership of the coins, which fill 600 barrels, now belongs to Spain and to descendants of the 250 Spanish sailors who were lost when the vessel blew up.

The court decision puts an end to nearly five years of intrigue on the high seas since Odyssey scooped the precious haul from the Atlantic seabed in May 2007. To the fury of Spanish authorities it secretly landed the trove in Gibraltar and flew it out in chartered aircraft to its base in Florida.

A American circuit court judge has upheld a decision by Atlanta judge Mark Pizzo, who had declared the trove came from the Nuestra Señora de las Mercedes, a Spanish frigate sunk by a British squadron off Cape St Mary, Portugal, in October 1804.

The judge rejected Odyssey's argument that there was no clear wreck site, with the coins scattered so widely it was impossible to say exactly which vessel they came from.

The treasure-hunting company, he said, had set out to find the Mercedes and had clearly done so.

Pizzo argued that the coins, all dated prior to 1804, matched the Mercedes' cargo of coins minted in Lima, Peru – part of a haul being brought back to finance Spain's European wars. He also said cannon found there matched those on the Mercedes.

Rightful ownership of the coins, which fill 600 barrels, now belongs to Spain and to descendants of the 250 Spanish sailors who were lost when the vessel blew up.

However, the whereabouts of a further 400,000 coins from the Mercedes remains a mystery.

The treasure was found by one of Odyssey's remote-controlled, deep sea robots as it scoured the seabed 1,100 metres down.

Odyssey's decision to use Gibraltar led to a tense stand-off in disputed waters off the rock. Shortly after the coins had been spirited off to Florida, a Spanish warship forced the company's 250ft Odyssey Explorer salvage vessel into the nearby Spanish port of Algeciras, while it was searched. Its captain, Sterling Vorus, was arrested, but later freed.

UK GUARDIAN / **LINK**

Germany's Bundesbank has entirely exhausted its stock of private assets and run up a quarter of a trillion euros in liabilities propping up the eurozone system, testing the political limits of EMU solidarity in Germany.

The operations are part of the European Central Bank's 'TARGET2' network of automatic payments between the national central banks of the Euroland club. The Bundesbank has already provided €496bn (£413bn) to countries in trouble, chiefly Greece, Ireland, Italy and Spain.

"This is reaching the danger point. It is already one and a half times the total budget of the German government," said Professor Frank Westermann of Osnabrück University. "If any of the crisis countries exits the euro or if there is an EMU break-up, the Bundesbank bears extreme risks."

The Bundesbank - the dominant body in the euro system - used to keep a stock of €270bn of private securities (refinance credit) before the start of the financial crisis. This was depleted last year as it sold assets to meet growing demands on the TARGET2 scheme.

"... "The longer it goes on, the larger the cost of a eurozone break-up since these credits could be wiped out with horrendous losses.

Once the debt drama began to engulf the bigger economies, the Bundesbank was forced to borrow money to meet its obligations to offset capital flight, since it refused to sell its stash of gold. It now owes €228bn to German banks.

Bundesbank's official position is that TARGET2 does not increase risk for Germany, but there has been mounting alarm from Germany's IFO Institute and private economists.

"There are political limits to TARGET2 support. The reason why the ECB started printing money in December was to avoid pushing the Bundesbank deeper into debt," said Prof Westermann, referring to the ECB's provision of €489bn in cheap loans to banks for three years.

David Marsh, author of books on both the Bundesbank and the euro, said the TARGET2 system has the effect of locking Germany ever deeper into monetary union.

"The longer it goes on, the larger the cost of a eurozone break-up since these credits could be wiped out with horrendous losses. It is about time this was the focus of proper debate in the Bundestag, since the German taxpayers may have to pay for it," he said.

AMBROSE EVANS-PRITCHARD / **LINK**

Euro zone finance ministers told Greece on Saturday it could not go ahead with an agreed deal to restructure privately-held debt until it guaranteed it would implement reforms needed to secure a second financing package from the euro zone and the IMF.

Euro zone ministers had hoped to meet on Monday to finalize the second Greek bailout, which has to be in place by mid-March if Athens is to avoid a chaotic default. But the meeting was postponed because of Greek reluctance to commit to reforms.

Instead, the ministers held a conference call on Saturday to take stock of progress on the second financing package, which euro zone leaders set at 130 billion euros back in October.

"There was a very clear message that was conveyed from all participants of the teleconference ... to the Greeks that enough is enough," one euro zone official said. "There is a great sense of frustration that they are dragging their feet.

"They should get their act together and start talking honestly, decisively and speedily with the Troika on the aspects of the programme that remain to be finalized - on fiscal and labor market reforms," the official said.

The Troika are the representatives of the European Commission, the European Central Bank and the International Monetary Fund, who have prepared a Greek debt sustainability analysis on which the second financing programme will be based.

"The main issue is the lack of reform, or prior action, in Greece," a second euro zone official said.

Euro zone ministers were also dissatisfied with Greek Finance Minister Evangelos Venizelos because they believed the minister was paying more attention to his position within his party ahead of the April elections, than to talks about reforms.

"... "There is an increasing sense of frustration that why should we honour our part of the bargain, which we have in the past, while Greece does not seem to care that much, and has not delivered their part of the bargain,"

"There is a great sense of frustration with Minister Venizelos, who is very hard to get hold of because he is very busy campaigning for the leadership of (the Greek party) PASOK, so he is not available to meet with Troika members," the first official said.

"He is preparing his own political future, rather than the future of his country. People are seriously disgruntled about that and have conveyed this very clearly to him this afternoon," the official said.

"There is an increasing sense of frustration that why should we honour our part of the bargain, which we have in the past, while Greece does not seem to care that much, and has not delivered their part of the bargain," the official said.

In Athens, Venizelos admitted to a growing sense of impatience with the Greeks.

"There is great impatience and great pressure not only from the three institutions that make up the troika but also from euro zone member states," Venizelos said after what he called a "very difficult" conference call with euro zone counterparts.

"The moment is very crucial. Everything should be concluded by tomorrow night."

Jean-Claude Juncker, who chairs the Eurogroup of euro zone finance ministers, voiced the possibility of default.

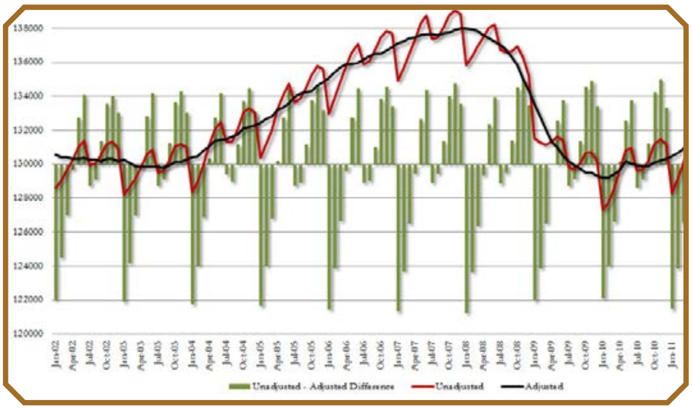
"If we were to establish that everything has gone wrong in Greece, there would be no new programme, and that would mean that in March they have to declare bankruptcy," he said in advance copy of comments to news weekly Der Spiegel.

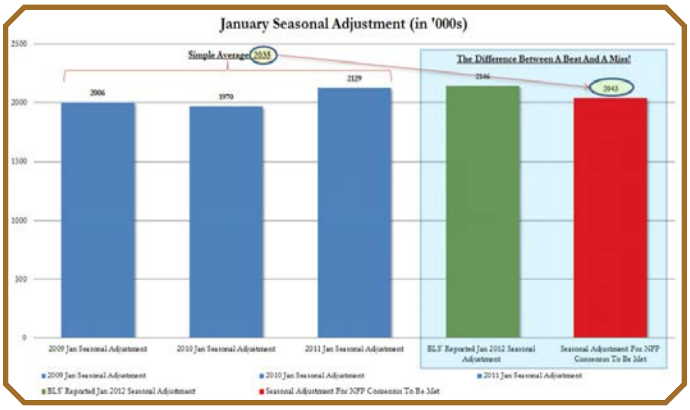
★ ★ ★ *REUTERS* / **LINK**

Since there still is confusion regarding yesterday's whopping "surge" in non-farm payrolls, which represented a 243K jump in the Establishment survey (of which 490K was temp jobs, same as in the Household Survey where temp jobs soared by a record 699K), yet only to arrive at an employment number last seen ten years ago, when the US population was about 30 million lower (think about that: 30 million increase in population and no change in the total employed), here is the final explanation of what happened yesterday.

As everyone knows by now, January is when the BLS imposes its annual seasonal adjustment revision (more on that in a second) for the previous January-December period. What this manifests itself most directly in, is the divergence between the Nonadjusted January number of the establishment survey of any given year and the Unadjusted number. And while the January adjustment is always substantial, it is the fact that the so-called beat was entirely based on assumptions that makes yesterday's NFP number so meaningless, and hardly the basis to assume that the US economy has taken off.

The chart below [left] shows the adjusted and unadjusted employment survey data for total Nonfarm Employees. The annual January overadjustment is more than evident. Just as evident are the subsequent under-adjustments as seasonal data is lowered to account for volatility in the NSA data. What is very notable is that in January, absent BLS smoothing calculation, which are nowhere in the labor force, but solely in the mind of a few BLS employees, the real economy lost 2,689,000 jobs, while net of the adjustment, it actually gained 243,000 jobs: a delta of 2,932,000 jobs based solely on statistical assumptions in an excel spreadsheet!





CLICK TO ENLARGE

SOURCE: ZEROHEDGE

So how does this data fit in specifically in the context of the just passed NFP whopper of a number? Simple. The chart [above, right] shows the January seasonal adjustment for the past 4 years, since 2009. The number of jobs added for "seasonal" purposes to the NFP number were as follows: 2009 - 2,006,000; 2010 - 1,970,000; 2011 - 2,129,000, and the all important 2012: 2,146,000. Once again, this is the number added to the NFP unrevised baseline to get a "final" number which is then blasted to the media. The chart below shows the historical January adjustment, to the NFP data, as well as the 2012 reported adjustment, and also what the statistical adjustment would be for the NFP number to have the NFP number come in line with expectations of a 140,000 beat.

ZEROHEDGE / **LINK**

Greece has just one day left to strike a deal with impatient lenders and reluctant political party leaders on a 130 billion rescue plan before the country is pushed towards a chaotic default, its finance minister warned on Saturday.

Athens has wrangled without success for weeks with lenders and private bondholders on the bailout package and a bond swap plan, putting itself dangerously close to bankruptcy as 14.5 billion euros of debt falls due in mid-March.

The talks have been held up largely on concern that the rescue plan may not be enough to bring Greece's debt back to a sustainable level, and fears that Athens lacks the will or ability to ram through reforms demanded in exchange for aid.

In an apparent warning to Greek political leaders opposing key reforms, Finance Minister Evangelos Venizelos said the patience of European partners and the International Monetary Fund footing the bill for Greece's bailout was wearing thin.

"There is great impatience and great pressure not only from the three institutions that make up the troika but also from euro zone member states," Venizelos said after what he called a "very difficult" conference call with euro zone counterparts.

"The moment is very crucial. Everything should be concluded by tomorrow night. We are on a knife-edge," he told reporters.

Athens had made progress by agreeing a plan to recapitalize Greek banks and details on privatization, he said. A senior banker told Reuters the recapitalization would occur mainly via common shares with restricted voting rights.

But far bigger sticking points on wages and spending cuts remain unresolved, and Venizelos warned that the stakes were rising as time ran out. "The distance between the successful completion of the procedures and an impasse which could happen by accident or because of a misunderstanding is very small."

"... "The moment is very crucial. Everything should be concluded by tomorrow night. We are on a knife-edge,"

Technocrat Prime Minister Lucas Papademos was due to continue talks with lenders on Saturday in a bid to clinch agreement before calling in the socialist, conservative and far-right party leaders in his coalition to seek their blessing.

That meeting of party chiefs, initially scheduled for Saturday, has now been put off until early Sunday afternoon, a government source said...

Greek officials have described the negotiations as tough, with the troika of European Central Bank, European Union and IMF lenders unwilling to yield an inch from their demands. Marathon negotiations ended without a deal on Friday.

"The troika is not backing down on wages, holiday bonuses and supplementary pensions," a Greek government official said.

"None of these issues have been resolved. They are all open and the onus is on political leaders."

The talks have moved slowly also because the troika wants agreement on all parts of the complex Greek rescue deal before signing off on the bailout, a source close to the talks said.

That includes reforms and spending cuts, pledges by political leaders to back the reforms, as well as the debt swap and any other initiative -- including any taken by public creditors like the ECB -- that would bring Greece's debt down to the targeted 120 pct of GDP level by 2020, the source said.

European Union sources say euro zone governments may now have to cough up an extra 15 billion euros on top of the 130 billion already agreed.

REUTERS / **LINK**

Flexible marketing strategies that helped some residential real estate developers beat 2011 sales targets may prove no match for government policymakers who've taken a rigid stance on housing market controls for 2012.

Thus, the credit and home buying controls phased in by the government since 2010 are likely to have more of their desired effects by cooling home prices and discouraging flat-flipping in coming months.

For developers, that means a more challenging business climate.

Indeed, executives from several major developers who spoke with Caixin recently said they sense a long, figurative winter settling in as revenues decline and credit remains tight.

Mergers and takeovers are likely to whittle developer ranks, while slackening demand will slow construction and pinch profit margins for developers that survive. Some developers have trimmed construction plans for 2012, or shifted their focus to affordable housing.

Most executives said they're looking ahead with a mix of pessimism and caution: So far, they see little to cheer in the new year.

"Things will be very difficult in 2012," said Mao Daqing, vice president of China Vanke Co., Ltd., one of China's biggest developers, at a Beijing press conference in December. "It will be a winter and a test for the entire industry."

"... "Things will be very difficult in 2012," said Mao Daqing... "It will be a winter and a test for the entire industry."

Cold winds started blowing in the fourth quarter 2011, as a policy-encouraged credit crunch prompted some banks to stop issuing mortgages to first-time home buyers. Home shoppers in cities such as Nanjing, Chongqing and Wuhan were affected by freezes on mortgage loans announced by Industrial Bank Co. Ltd. and China CITIC Bank.

In an interview with Caixin, Moody's Investors Service Inc. Vice President Zhong Wenquan warned that mainland developers with Hong Kong-listed stock may find financing especially difficult in 2012.

Although some government policymakers have referred to "fine-tuning" real estate market controls in 2012, hinting that regulators may allow looser credit, industry insiders remain skeptical about the overall financial environment.

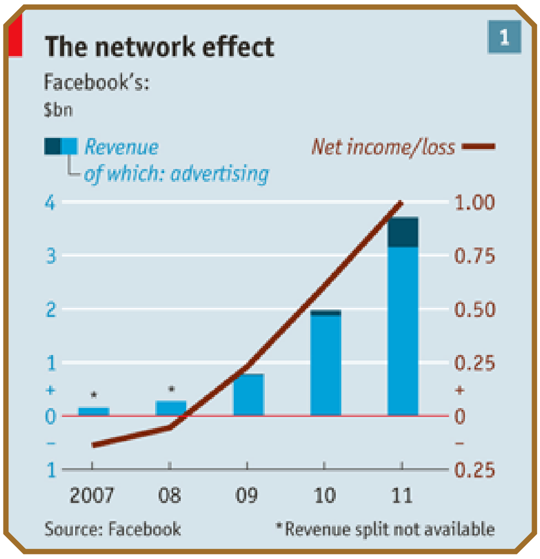
An executive at one central government-controlled real estate developer who asked not to be named told Caixin he thinks lending "will still be tight in 2012" across the board, even though "state-owned enterprises may have some advantages and may get a few more loans than others."

CAIXIN / **LINK**

Mark zuckerberg, Facebook's founder and chief executive, has talked for years about the notion of a "social graph" which connects people to their friends and all of the things they are interested in. By encouraging hundreds of millions of people to share their deeds and reveal their innermost thoughts, profane or profound, online, his company has in effect mapped a portion of this graph on its computers. According to the Onion, a satirical publication, the whole thing was the CIA's idea; digging up this amount of information the old-fashioned way would have cost the spooks a fortune.

These billions of electronic nodes and links will soon make a fortune for Mr Zuckerberg, still only 27, who owns 28.4% of Facebook and will continue to control most of the voting rights. It will also enrich other shareholders, many of them employees. On February 1st the company announced plans for an initial public offering (IPO) that will raise $5 billion, maybe more, in the largest flotation ever of an internet company. Not since Google's IPO in 2004—the year that Facebook was founded—have techies and venture capitalists been so aflutter. Facebook's flotation, which is likely to take place in the spring, will create a publicly quoted tech giant that will stand alongside American technology titans such as Amazon, Apple and Google itself.

The document Facebook filed with the Securities and Exchange Commission (SEC) revealed details of its finances for the first time (see chart 1). Last year the company had sales of $3.7 billion, a little below



SOURCE: ECONOMIST

recent estimates, and made a net profit of $1 billion. The network boasts 845m users, which, were Facebook a country, would make it the world's third most populous, behind China and India. Some of the other statistics associated with it are also mind-boggling. Every day 250m photos are uploaded to the site. One out of every seven minutes spent online is on Facebook, according to comScore, a research firm.

Facebook's stunning progress has earned the company estimated valuations of between $75 billion and $100 billion. Private trading in its shares on secondary markets has implied a value of more than $80 billion. That would be more than 20 times last year's revenues—and more than 80 times last year's net income. These are eye-wateringly high multiples.

The case for thinking such a valuation is justified rests in part on a couple of broad technological trends that show no signs of going into reverse. The first is the rapid spread of internet connectivity, which is making Facebook accessible to ever more people. (The Boston Consulting Group reckons that around 3 billion people will be online by 2016, up from 1.6 billion in 2010.) The second is the rise of the mobile phone. Already more than 425m people are tapping into Facebook on these devices and in future most of the social network's growth will come from the mobile web. Together, these trends could propel the number of users beyond 1 billion.

★ ★ ★ *THE ECONOMIST* / **LINK**

The circuit board of skyscrapers in Tokyo's tech district glints in the winter sunshine, with the Sony Technology Centre seemingly reaching up to the sky. It stands proudly alongside the other titans of Japan Inc such as Panasonic in the Shinagawa district – but in reality these are crumbling empires, their very foundations chipped away by the aggression of Samsung and the design brilliance of Apple.

Last week, Sony's Welsh-born boss, Sir Howard Stringer, the first foreigner to hold the top job, paid the price for his failure to turn the company around. Company veteran Kazuo Hirai, who has a record as a hard-nosed cost-cutter, will take over from him in April – but with a near £2bn annual loss on the horizon there will be no cheerleading from the new leader: he said he felt "an acute sense of crisis" and identified a need to push through urgent change.

The heavy losses at Sony were mirrored at Panasonic and Sharp, and the bleak scene was completed when Japan itself reported its first annual trade deficit since 1980, blamed on the impact of the tsunami and the strong yen.

Within the business community there are whispers of a sense of paralysis or "hopelessness", and the fear that if decisive action is not taken, some of the companies that were the engine for Japan's post-war growth could fall into irreversible decline.

"Japanese companies cannot keep doing what they have been doing," says Hiroshi Mikitani, the founder of e-commerce giant Rakuten. His company, which is worth more than £7.6bn, is not a household name in the UK yet, although many Britons are now indirect customers of Mikitani's following Rakuten's acquisition of UK e-retailer Play.com for £25m last year and Kobo, the Canadian ebook maker, for £200m.

At home it is best known for Rakuten Ichiba, the country's biggest online marketplace – ahead of Amazon – with more than 37,000 merchants selling almost everything from noodles and sushi to Japanese ceremonial armour. With annual sales of £2.6bn in 2010, its operations also span banking, travel ticketing and even a mediocre professional baseball team – the Tohoku Rakuten Golden Eagles, which finished fifth in a league of six teams last season.

Mikitani is confident Rakuten can take on Amazon around the world. Its Ichiba website has been likened to a "blog with a shopping cart attached": merchants are encouraged to talk to customers and give internet shopping a "human face" – unlike Amazon, which, he says, is just a "gigantic vending machine". Rakuten's strategy is to build alliances and it hopes the Kobo will be a more "open source" option than Amazon's Kindle for retailers and publishers. "There are lots of companies that don't like Amazon because they want to control and dominate everything," says Mikitani. "We are more alliance-oriented ... We want to establish relationships with retailers."

> "Within the business community there are whispers of a sense of paralysis or "hopelessness", and the fear that if decisive action is not taken, some of the companies that were the engine for Japan's postwar growth could fall into irreversible decline."

The self-made billionaire, whose early career was in banking, claims Japanese executives lack a global perspective – a syndrome that has been called "Galapagos-isation", referring to the tendency among Japanese companies to focus on the tastes and demands of an isolated and shrinking home market rather than take risks abroad.

The country's electronics sector has been hit by the success of South Korea's Samsung and LG, which assemble products in lower-cost countries such as China, Indonesia and Thailand. There have also been spectacular own goals: Japan had web-surfing handsets nearly a decade before the iPhone, yet local producers failed to tap overseas markets.

★ ★ ★ *UK GUARDIAN* / **LINK**

I'm not sure if you've noticed or not, but over the past year or so there's been a surging interest in the flocking behavior of starlings. Why? Well, other than the awe-inspiring beauty of one of nature's most beautiful and mysterious phenomena (see video), it represents a steadily growing dynamic at work within our own society and financial markets—namely, the collective behavior of any highly interconnected system.

To be quite honest, there may be no better way of capturing the mysterious behavior of complex systems than the unpredictable and yet highly coordinated movements of a thousand or so starlings flying in mid-air. Thus, it is easy to understand why TED-talks, morning shows, or long-time market commentators have all been inspired by this amazing phenomena and, in the case of James Dines, to create splashy headlines like "The Coming Worldwide Murmurations."

Whether we refer to it as herding, collective intelligence, mass psychology, or complex self-organizing behavior—this property of the markets is something that we as humans have a hard time perceiving since, well, we're often part of it. As Dines went onto explain in a recent interview:

> *It is very hard to see and it doesn't show up very often. All psychology today is vertical, so to speak. It's a combination of our genes and experiences individually, whereas I believe there is another level of mind that is horizontal. And it's a mass mind, and it grips us without us even being aware of it. And the examples of it in the market were the real estate craze of a few years ago. People buying real estate at way higher prices, way too high prices, [which led to] the excessive gloom... [this herding or collective behavior] shows roughly in the market sometimes. But a more visible one*

sometimes occurs in nature. And we called attention to a free video site that showed thousands of starling birds moving in fractal exotic shapes as if they were one unit. And my theory is that they are. The scientists studying them couldn't possibly have gotten a signal from those next to them because they were moving in tandem with birds hundreds of feet away. And I feel that this is a visible example of the "mass mind", which excites me because I watch it in the Stock Market. But I've never actually seen it. And it seems to be something, a 'pre-birdness' of some kind, such that the birds themselves are actually manifestations of it. I'm a trained scientist, so it's not easy for me to accept this kind of thing, but a real scientist has an open mind to everything.

From a person who wrote the classic book on How Investors Can Make Money Using Mass Psychology, it is interesting that Dines simultaneously admits "never actually seeing" the murmurations of the market. But this isn't a criticism of Dines—merely an observation of how limited we are in recognizing minute and ever-changing patterns as visibly we do with a group of starlings. Ironically enough, most of the financial world is continually operating at this level—just beyond human perception. Good investors or analysts then, simply detect patterns driven by the intrinsic value of an investment and/or by its technical behavior and then capture the results. At a fundamental level, this is all that separates those who make money from those who don't.

★ ★ ★ *CRIS SHERIDAN* / **LINK**

Hungary is seeking an international credit line of 15 to 20 billion ($20 to $26.3 billion) euros, the secretary of state heading the prime minister's office, Mihaly Varga, was quoted on Saturday as saying.

Hungary is seeking backup from the International Monetary Fund and the European Union to reassure investors it has financing even if it gets cut off from debt markets later this year.

The country's currency, the forint, sank to a record low against the euro a month ago, and its government bond yields rose above 11 percent on concerns that amid the euro zone crisis it may not be able to finance central Europe's highest debt burden compared to its economic output.

"... Hungary's government unnerved investors repeatedly in 2010 and 2011 with unorthodox economic policy steps"

Varga reiterated that the government expected to reach a deal soon on a credit line that it could tap if the European debt crisis deepened further.

"A quick agreement is in the interest of both parties, therefore a deal could be outlined in one or two months," he said in an interview in the daily Magyar Hirlap.

"The amount of the safety net could be somewhere between 15 and 20 billion euros," he added.

Hungary's government unnerved investors repeatedly in 2010 and 2011 with unorthodox economic policy steps. It has also upset the European Commission with a range of legislation including a central bank bill that the Commission said curbed the bank's independence.

The country's markets have partially recovered due to pledges by the government to settle these issues and set up the international credit line.

"The planned financial backstop will allow the forint exchange rate to stabilize and government bond yields to drop, and it could lead to savings worth tens of billions forints in the budget," Varga said.

The EU has threatened to cut vital 'cohesion funds' it disburses to Hungary unless the country takes measures to prove that it can reduce its deficit to a sustainable level.

But a slowdown in the economy makes further budget cuts difficult. The government expects 0.5 percent growth for the year and the IMF 0.3 percent, while the European Bank for Reconstruction and Development projects a 1.5 percent contraction.

“In a hectic global environment it is more difficult to increase the pace of growth in the Hungarian economy to a sustainable course,” Varga said. “An upswing could start when we get to the second half of 2012.”

★ ★ ★ *YAHOO* / **LINK**

The half-century habits of Franco-German condominium die hard. It is a painful process for French elites to admit that monetary union is asphyxiating their economy and must inevitably trap France in mercantilist subordination to Germany.

The Carolingian union is all that anybody in French public life can really remember. It worked marvellously for two generations, levering French power on the global stage, and the euro was of course their own creation, intended to tie down a reunited Germany with “silken cords”. How can they now face the awful truth that this elegant strategy has blown up in their faces, enthroning Germany as undisputed hegemon?

Yet they can hardly ignore the evidence. While German unemployment has fallen to a post-Reunification low of 5.5pc, France’s jobless rate has crept up to a post-EMU high of 9.9pc and is certain to rise further as recession bites again.

While both countries had the same sorts of export surplus in the early 1990s, they have diverged massively since the D-Mark and franc were fixed in perpetuity. Germany has a current account surplus of 5pc of GDP: France has a deficit of 2.7pc, anathema for Colbertistes.

You can see from IMF data that the silent coup took place in the fat years of the global boom when Germany forced down unit labour costs; -1.7pc in 2003, -4.0pc in 2004, -3.3pc in 2005, -1.8pc in 2006.

France lost ground year after year due to wage creep and weaker productivity. Enough time has now gone by to leave it stuck inside EMU with a misaligned exchange rate, and talk of euro exit is at last starting to be heard.

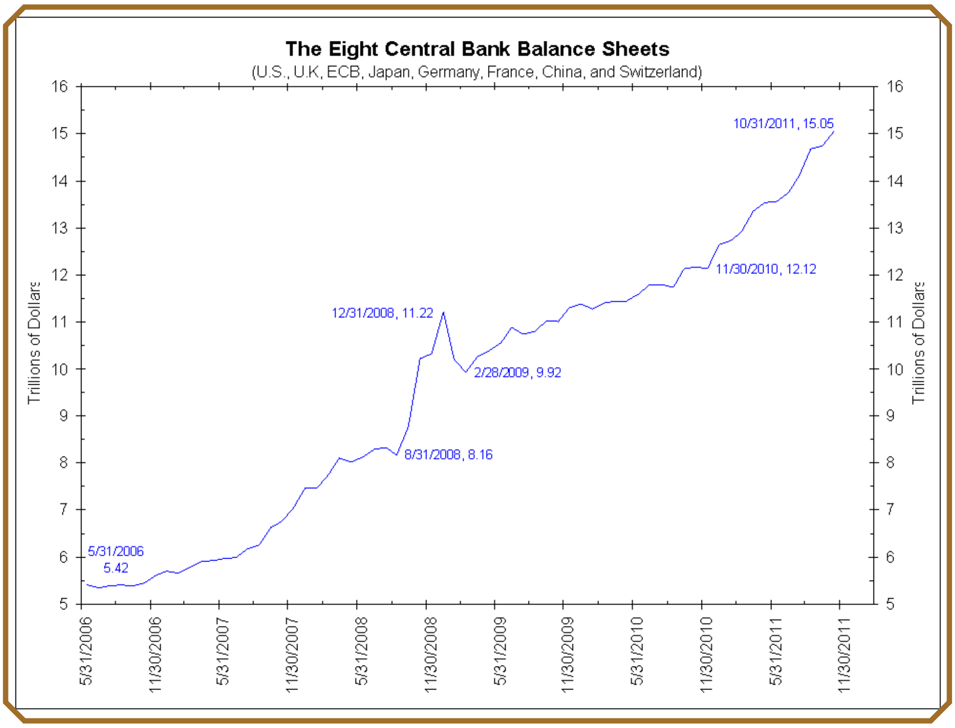
“The single currency is condemned to an uncontrollable explosion sooner or later,” wrote 12 economists in a recent letter to Le Monde, calling for an orderly return to national currencies. “The obstinate determination of governments to take us by forced march deeper into the euro impasse can only lead to the general aggravation of the economic situation in Europe,” they said.

President Nicolas Sarkozy has no answer to this. He has clung to the fig leaf of Franco-German parity, staking all on ties to Chancellor Angela Merkel, rather than seizing leadership of the Latin bloc to force a radical change of policy.

His gamble on the status quo has failed. Mrs Merkel has not yielded an inch, and has now forced him to swallow a fiscal treaty that erodes French sovereignty without offering any remedy to the crisis at hand.

Her contradictory medicine for half of Europe has itself cost France its AAA rating, as Standard & Poor’s made clear when it unleashed its volley of downgrades last month. “Fiscal austerity alone risks becoming self-defeating,” it said.

★ ★ ★ *AEP* / **LINK**



CLICK TO ENLARGE

SOURCE: CASEY RESEARCH

A ny Questions?

CLICK TO ENLARGE

SOURCE: D SHORT

The $OEXA200R (the percentage of S&P 100 stocks above their 200 DMA) is a technical indicator available on StockCharts.com that can be used to forecast conservative entry and exit points for the stock market.

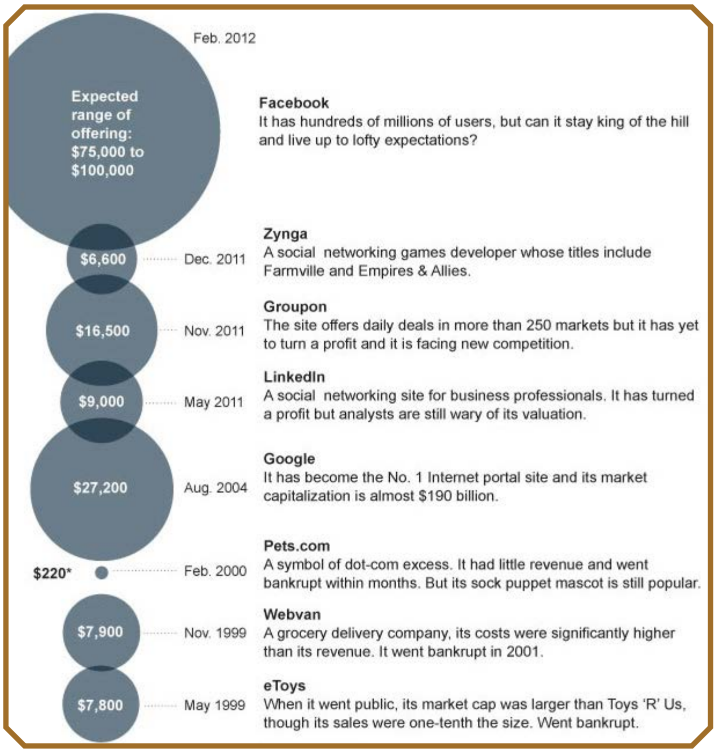
The OEXA is used to find the "sweet spot" time period in the market when you have the best chance of making money The market is very tradable. But this could be the last gasp before a serious correction beginning mid to late 2012. Look for a possible drop to coincide with the historic S&P pattern that has a tendency to tail off in the 2nd and 3rd Quarters (see below). Add to that any number of negative catalysts that could occur around the same time: Greece, Iran, another U.S. credit down grade - take your pick.

DOUG SHORT / LINK

CLICK TO ENLARGE

SOURCE: DEMONOCRACY

The extent of Europe's financial peril and the level to which it's banks have gotten themselves over their skis is made crystal clear by this amazing graphic. Not for the feint of heart.

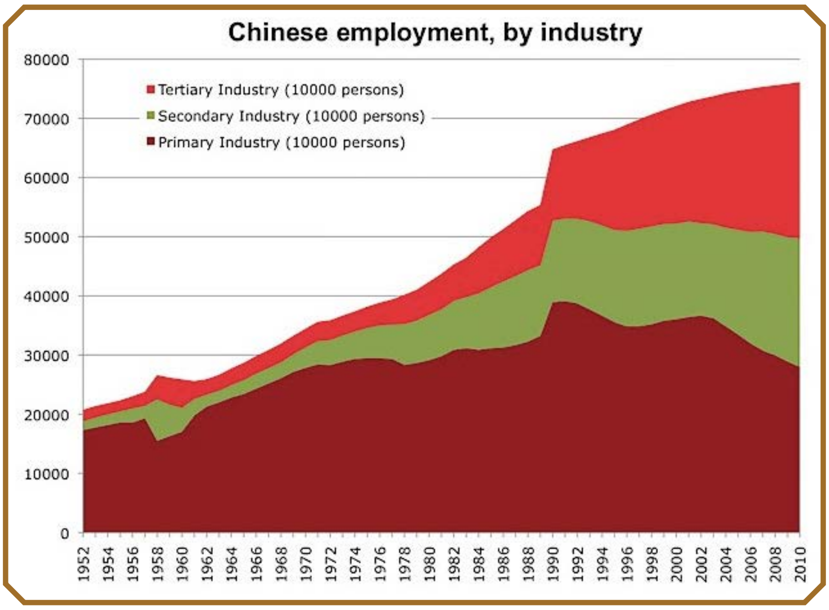


In its early years, the Internet revolution spawned companies that helped people gain access to the nascent technology. Then came an e-commerce boom in companies selling a wide range of products. The latest stage has been companies that create virtual communities and entertainment. Some of the companies born of the Internet have become global behemoths with a speed that would have been unimaginable decades ago. Others have traced the trajectories of shooting stars — going from concept to scrap heap in only a few years.

NY TIMES / LINK

What you're looking at here is total Chinese employment from the All China database. Primary industry is commodities, basically, including agriculture; secondary industry is manufacturing; tertiary industry is services.

It comes as little surprise to see that agricultural employment has been falling steadily for 20 years. But it is surprising to see that if you take out the services sector, total Chinese employment has been going nowhere, and basically falling, for the same amount of time.

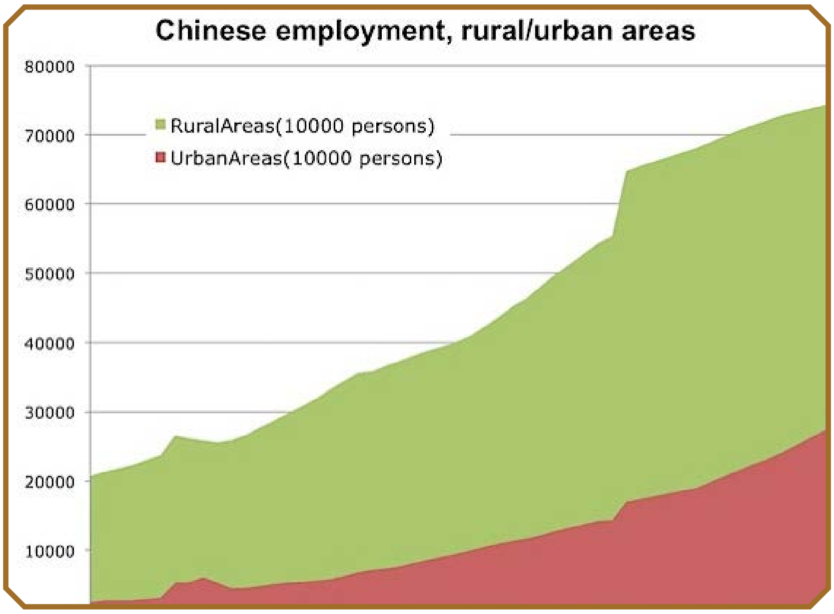


SOURCE: FELIX SALMON

Caroline Baum, using a different data source, says that China lost 15 million manufacturing jobs between 1995 and 2002; according to these figures, employment in "secondary industry" was flat in those years, going from 156.6 million to 156.8 million before starting to rise again and reaching 218.4 million in 2010. (It's worth pausing here to appreciate the sheer scale of this chart: each horizontal line is another 100 million workers.)

Meanwhile, the services industry — tertiary industry — has been on fire: it now employs 263 million people, more than are employed in secondary industry, and has doubled since 1992. All this, remember, in a country with more or less flat population growth, thanks to the one-child policy.

Of course it's hard to find work in the services industry if you're a rural peasant: tertiary industry is a fundamentally urban thing, which brings me to my second chart.



SOURCE: FELIX SALMON

It comes as no surprise to see that urban employment is growing incredibly fast — 13.7 million urban jobs were created in China in 2010 alone. What does come as a surprise is to see that urban jobs are still in the minority in China — which means that there's a lot of room for growth going forwards.

FELIX SALMON / **LINK**

COSTELLO: I want to talk about the unemployment rate in America .

ABBOTT: Good “subject” in these terrible “times.” It’s about 9%.

COSTELLO: That many people are out of work?

ABBOTT: No, that’s 16%.

COSTELLO: You just said 9%.

ABBOTT: 9% Unemployed.

COSTELLO: Right 9% out of work.

ABBOTT: No, that’s 16%.

COSTELLO: Okay, so it’s 16% unemployed.

ABBOTT: No, that’s 9%...

COSTELLO: WAIT A MINUTE. Is it 9% or 16%?

ABBOTT: 9% are unemployed. 16% are out of work.

COSTELLO: If you are out of work you are unemployed.

ABBOTT: No, you can’t count the “Out of Work” as the unemployed. You have to look for work to be unemployed.

COSTELLO: But ... they are out of work!

ABBOTT: No, you miss my point.

COSTELLO: What point?

ABBOTT: Someone who doesn’t look for work, can’t be counted with those who look for work. It wouldn’t be fair.

COSTELLO: To who?

ABBOTT: The unemployed.

COSTELLO: But they are ALL out of work.

ABBOTT: No, the unemployed are actively looking for work... Those who are

out of work stopped looking. They gave up. And, if you give up, you are no longer in the ranks of the unemployed.

COSTELLO: So if you’re off the unemployment roles, that would count as less unemployment?

ABBOTT: Unemployment would go down. Absolutely!

COSTELLO: The unemployment just goes down because you don’t look for work?

ABBOTT: Absolutely it goes down. That’s how you get to 9%. Otherwise it

would be 16%. You don’t want to read about 16% unemployment do ya?

COSTELLO: That would be frightening.

ABBOTT: Absolutely.

COSTELLO: Wait, I got a question for you. That means they’re two ways to bring down the unemployment number?

ABBOTT: Two ways is correct.

COSTELLO: Unemployment can go down if someone gets a job?

ABBOTT: Correct.

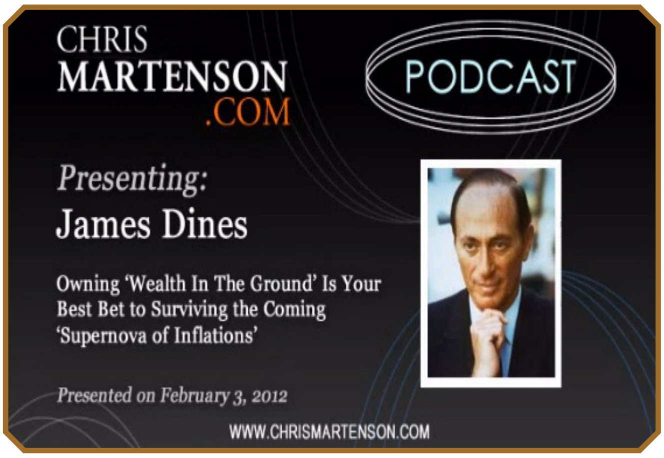
COSTELLO: And unemployment can also go down if you stop looking for a job?

ABBOTT: Bingo.

COSTELLO: So there are two ways to bring unemployment down, and the easier of the two is to just stop looking for work.

ABBOTT: Now you’re thinking like an economist.

(Thanks DB!)



CLICK TO LISTEN

"The price of gold and silver did not go up. It is the paper money that went down. Gold and silver are the ultimate money, coins of which are good anywhere in the world, no matter what is stamped on them, and that is the money. Depending on the amount of paper each nation prints is the price of gold in that particular country, or in that particular currency."

...Gold is the only investible asset in the world that has gone up the last 11 years without interruption, and that is because they are just running the printing presses. The more they do, the more value builds into gold and silver."

James Dines talks to Chris Martenson on 'owning wealth in the ground'. Fascinating.

In 1999, Senator Byron Dorgan stepped to the microphone to talk about the impending Gramm-Leach-Bliley Act and share his views as to why it was a bad idea.

A little over 12 years later, that speech looks frightening in its prescience.

CLICK TO WATCH

CLICK TO WATCH

Charles Biderman of Trim Tabs comments on the BLS NFP report from Friday.

Biderman knows a lot more about the inner workings of the headline number than most, so his analysis is always worth listening to.

Unsurprisingly, his analysis of this blow-out number is a little caustic to say the least...

On January 15, 2009, Captain Chelsey Burnett Sullenberger III catapulted to worldwide fame after miraculously landing a stricken Airbus A320 safely on New York's Hudson River, saving the lives of all 155 people on board.

It was a remarkable story and endeared 'Sully' to America forever.

This Black Box recreation of the events of that day casts some more light on what transpired both in the cockpit and the control tower at La Guardia, and tells an utterly amazing story of serenity under pressure, the likes of which I have seldom seen.

This is truly remarkable.

(Thanks AR)

Hmmm...

SUBSCRIBE | UNSUBSCRIBE | COMMENTS