THINGS THAT MAKE YOU GO

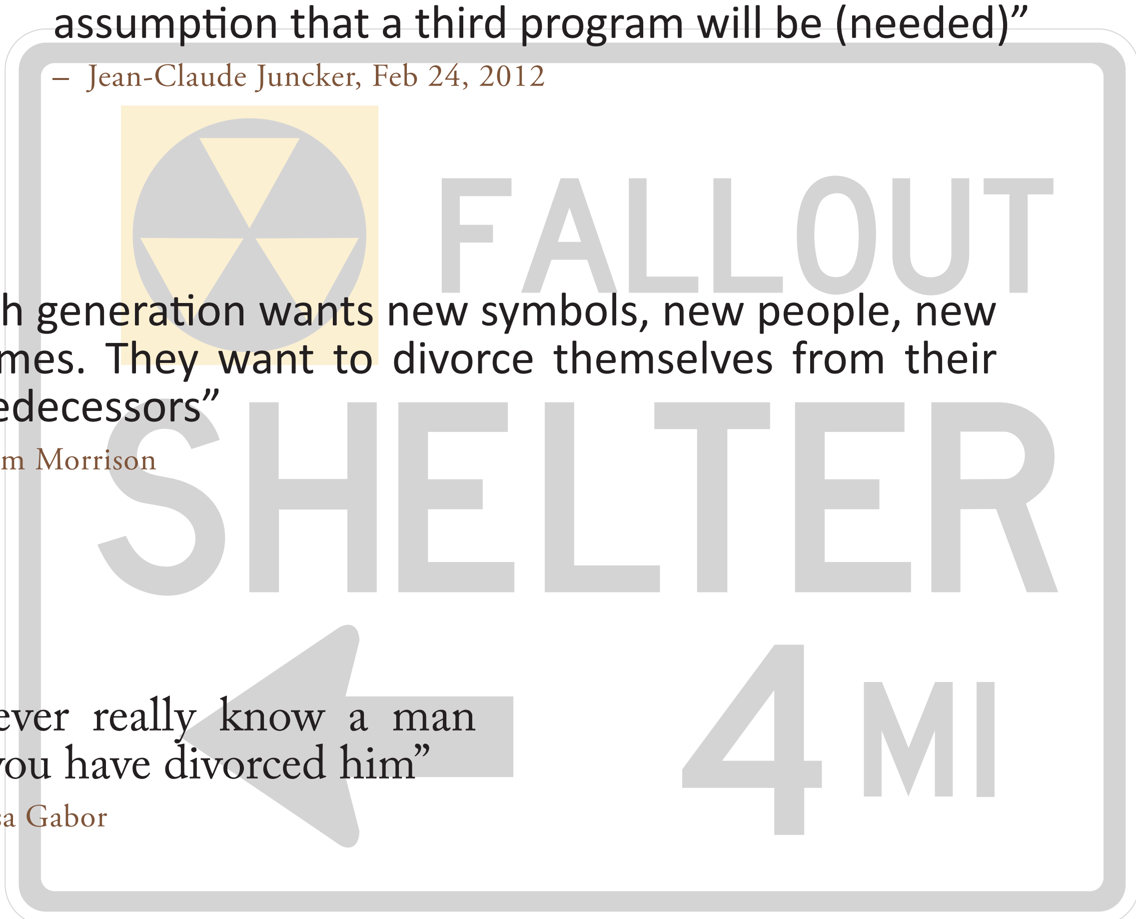
Hmmm...

A walk around the fringes of finance

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

"There are no guarantees that the chosen path will lead to success. It is also possibly not the last time that the German parliament will have to consider financial aid to Greece"

– WOLFGANG SCHAEUBLE, FEB 24, 2012



"You cannot really exclude [the possibility of a third bailout], although we should not have as a starting assumption that a third program will be (needed)"

– Jean-Claude Juncker, Feb 24, 2012

"Each generation wants new symbols, new people, new names. They want to divorce themselves from their predecessors"

– Jim Morrison

"You never really know a man until you have divorced him"

– Zsa Zsa Gabor

Given enough time, one would assume it should be possible to build a perfect structure, but, in the middle of the Piazza del Duomo in Tuscany stands proof positive that, if the foundations are imperfect in any way, the amount of time spent in assembling the structure becomes irrelevant.

Behind the Duomo and the Baptistry lies a structure instantly recognizable to millions of people throughout the world for one reason – and one reason only – the basic flaw in its construction; The Campanile, the free-standing bell tower of the Cathedral of Santa Maria Assunta otherwise known as The Leaning Tower of Pisa. (Be honest, how many of you recognized the structure in the photograph above after I rotated it so it sat perfectly vertical? Thought so).

The Leaning Tower of Pisa took 177 years to complete after ground was broken on August 8th 1173 as a series of circumstances dictated that work be stopped for lengthy periods.

"Europe has a habit of putting structures in place that are inherently flawed and then trying to come up with all kinds of ways to cobble together a short-term fix..."

After construction of the white marble tower had reached only the second floor, in 1178, the structure began to sink into the soft, unstable subsoil as the shallow (3m) foundation proved to be a (fairly obvious) design fault. Work was halted and, due to a series of wars between Pisa and Florence, Genoa and Lucca, nothing further was done for almost a century (during which time, luckily, the subsoil settled and compacted to the point where continuation was possible).

In 1272, Giovanni di Simone took over the project and his engineers came up with the brilliant idea to build the higher floors with stones taller on one side than the other to compensate for the tilt – thus making the structure curved – but, after defeat for the Pisan navy in the battle of Meloria, construction was again stopped in 1284.

It wasn't until 1319 that the seventh floor was finished (complete with a northern staircase consisting of two fewer steps than its southern counterpart) and the bell chamber itself was finally added in 1372.

The tower is 55.86m in height on the low side and 56.70m on the high side. The walls are 4.09m thick at the base and 2.48m thick at the top and the structure leans at roughly 3.99 degrees (which means the top of the tower is displaced by 3.9m from where it would be if the tower were perfectly vertical.).

Prior to 2001, the tower leaned at an angle of 5.5 degrees.

It was on February 27, 1964 that the Italian government announced they were accepting suggestions on how to save the famous structure which, experts predicted, was toppling fractionally every year and was in serious danger of collapsing if there were an earthquake or a severe storm, and, after several flirtations with plastic-coated steel tendons, underground drilling, counterweighting and liquid nitrogen, a process of slowly excavating soil from under the North side of the tower was begun in 1999 which reduced the tilt by eighteen inches and, supposedly, gave a further 300 years of life to the Leaning Tower.

Europe has a habit of putting structures in place that are inherently flawed and then trying to come up with all kinds of ways to cobble together a short-term fix in order to survive any immediate danger and, just like the marble tower in the Piazza del Duomo, the European Union is in danger of toppling over.

Cue short-term fix.

This week, the Brussels Touts finally agreed the long-awaited bailout for Greece but not before some very strange events took place that, to anybody watching closely, spoke volumes about what is really going on behind closed European doors.

The UK Daily Telegraph published a refresher for those of us suffering from Crisis Fatigue and it is a useful exercise to go back and remind ourselves just how the whole leaning tower of the EU began to lean:

> *(UK Daily Telegraph); The first sign of trouble in Greece was when George Papandreou took over as prime minister in October 2009 and found that the government had been understating its public debts for years. Two months later Fitch downgraded Greece's debt to BBB+, the lowest credit rating in Europe. Financial traders scrambled to work out the implications of a European Monetary Union that contained members with such different profiles as Greece and Germany.*
>
> *But the reality was that the EMU was a very thin veneer over deep economic, political and cultural divisions.*
>
> *Despite being poor, the Greek government has for decades sought to be generous to its people. Historians point to the war-torn decades, including a civil conflict after the Second World War that wiped out 10pc of the population followed by bloody clashes between Cyprus and Turkey in 1974: the Greek state has tried to soothe its people by creating a big welfare state and generous pay and pensions - including low retirement age and the famous 13th and 14th monthly salaries.*
>
> *When it came to joining the euro in 2001, it should have been obvious that Greece did not meet the debt conditions. But, by spinning the numbers, Greece gained entry, not just to the single market but to debt markets that allowed it to borrow as though it was as dependable as Germany.*
>
> *Greece went on a spending spree on infrastructure, services and public sector wages. Meanwhile, the Greeks stopped paying taxes. To Athens' delight, banks and the financial markets filled the gap by lending billions of euros. With the onslaught of the credit crunch, Greece's vast debts were exposed - but so was the exposure of European banks. If Greece went bust, untold damage could be unleashed across Europe and beyond: for a global economy still shattered from the 2008 banking crisis, the prospect of another one was intolerable.*

At every bump in the road between 2009 and now, the circling of the Euro wagons has been consistent and, for the most part, the party line has been toed. We have discussed in these pages at length just how keen those involved in the discussions about Greece's (and, by extension, Europe's) future have been to convey the notion that there was no way Greece would be defaulting and no way ANY country would be leaving the Euro. With great fanfare it was pointed out that, when the Maastricht Treaty was drawn up, there were, quite deliberately, no mechanisms put in place for either a withdrawal or an expulsion of any member state.

But, then... Zsa Zsa Gabor promised to stay together 'until death do us part' nine times.

Incidentally, Ms. Gabor finally seems to have found a husband who can maintain her in the manner to which she has become accustomed and finance her rather extravagant lifestyle.

Funnily enough, he is German.

But I digress...

This past Monday, as the world waited with baited breath to hear the news about the parameters surrounding the Greek bailout agreement, a rather strange thing happened. A document marked 'STRICTLY CONFIDENTIAL' that was prepared for Europe's finance ministers *somehow* found its way into the hands of both Reuters AND the Financial Times. How strange? Who could POSSIBLY have leaked it I wonder?

Anyway, by now the 'leaked draft' has become the favourite means for these clueless buffoons to ensure media compliance with 'the message' - after all, everybody likes to feel like they are in the inner sanctum, right. Remember the Eurozone 'Summit' in October 2011?:

> *(UK Guardian): A leaked draft of the Euro Summit Statement is sparse on details and long on hot air. They only item of "substance" and I really use that world lightly, is an 10-point action item plan detailing an agreement to setup more meetings.*

Or how about the December 2011 EU Summit?:

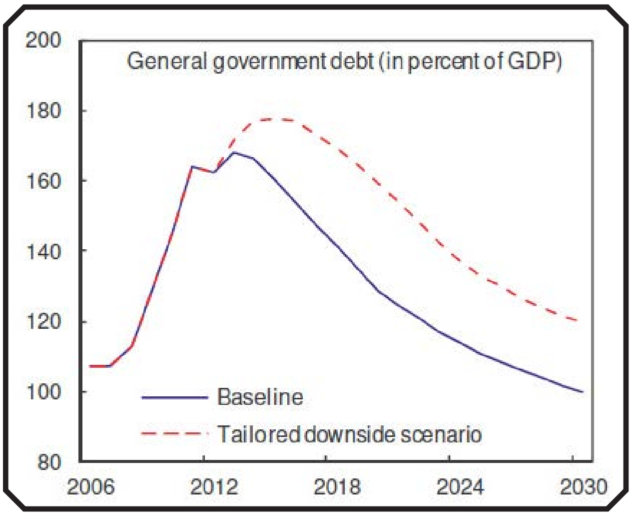
> *(Pragmatic Capitalism): A leaked draft of this week's EU summit shows little change in coming policy and certainly nothing close to what is needed to resolve the Euro crisis*

Or, if you'd prefer, we can go back to March of last year and another EU Summit:

> *(FT): Some, though not all, of those differences are reflected in a draft version of the summit conclusions which we've happened to get our hands on...*

<RANT ON> *It's the blatant dishonesty that is so galling about what is happening right now. The public are being taken for fools (which, for the most part, they sadly are) and maneuvers like these are being made by people who clearly have no problem looking in the mirror because they don't see staring back at them what WE see when we look at them. The attempts at manipulation of public opinion and softening of impact are truly shameful.* **<RANT OFF>**

Anyway, to the latest leaked document which, whilst naturally still a 'draft', was a 9-page piece entitled '[Greece: Preliminary Debt Sustainability Analysis](#)'. This time, in an abrupt about-turn from previous leaks which put forth the best case and seemed designed explicitly to assuage the nerves of the investing public ahead of a key announcement about Greece's future, the leaked document seemed at pains to make it abundantly clear that, not only was Greece in no position to comply with the parameters which would be set in the bailout agreement, but that, in fact, things were actually FAR worse than anybody had believed.



SOURCE: WHO KNOWS?

How bad? Well, so bad that, having read this 'leaked draft', it would be a stretch for anybody to see any way that Greece could realistically stay part of the EU. Now, why on EARTH would getting THAT message out be of use? And WHO could it possibly be of use to? We may never know:

> *(Leaked Draft): The debt trajectory is extremely sensitive to program delays, suggesting that the program could be accident*

> *prone, and calling into question sustainability... Under the tailored scenario described above, the debt ratio would peak at 178 percent of GDP in 2015. Once growth did recover, fiscal policy achieved its target, and privatization picked up, the debt would begin to slowly decline. Debt to GDP would fall to around 160 percent of GDP by 2020, well above the target of about 120 percent of GDP set by European leaders. Financing needs through 2020 would amount to perhaps €245 billion. Under the assumption that stronger growth could follow on the eventual elimination of the competitiveness gap, the debt ratio would slowly converge to that in the baseline, but likely only in the late 2020s. With debt ratios so high in the next decade, smaller shocks would produce unsustainable dynamics, leaving the program highly accident-prone.*

Yesssss, that's right folks; Greece's situation is SO bad that, not only is it highly unlikely they will be able to reach the 120% debt-to-GDP target (set as a condition of the bailout) by 2020, but the level at that point could well be 160% or, to put it in layman's terms, almost exactly where it is now.

After ONE MONTH of 2012, Greece is €1 billion in the hole and revenues that were forecast to *CLIMB* 8.9% actually *FELL* 7%. Clowns.

<RANT ON> *Now I know I've spoken about this before - last week in fact - but it bears repeating. The idea that anybody can make an accurate projection EIGHT years out is utterly laughable. Case in point are the Greek budget revenue estimates for January. The people in charge of making these estimates (presumably in possession of all the necessary data and, one would hope, fully cognisant of just how bad things really are) were so wildly out in their forecasts that it beggars belief. How far out were they? Well I'll tell you.. No, better yet, I'll let Greece's ekathimerini have the honour:*

> *(ekathimerini): Budget revenues were found to be lagging by a considerable 1 billion euros in the year's first month, provisional January data compiled by the Finance Ministry showed on Tuesday.*
>
> *Revenues posted a 7 percent decline compared with January 2011, while the target that had been set in the budget provided for an 8.9 percent annual increase.*
>
> *Worse still, value-added tax receipts posted an 18.7 percent decrease last month from January 2011 as the economy continues to tread the path of recession: VAT receipts only amounted to 1.85 billion euros in January compared to 2.29 billion in the same month last year.*
>
> *The VAT revenue data represent a particular worrying sign regarding the depth of recession for 2012, while even more painful measures are expected to lead to a reduction in salaries and therefore a further drop in consumption. This is the vicious cycle that the government will have to tackle by way of additional fiscal measures this summer.*
>
> *According to the current data, the 2012 budget will certainly have to be revised soon, given that the original estimate for a contraction of 2.8 percent is now raised to 3.5-4 percent of gross domestic product.*

Yes folks, you read that right.

After ONE MONTH of 2012, Greece is €1 billion in the hole and revenues that were forecast to CLIMB 8.9% actually FELL 7%. Clowns.

I... they.... how... oh what's the point? **<RANT OFF>**

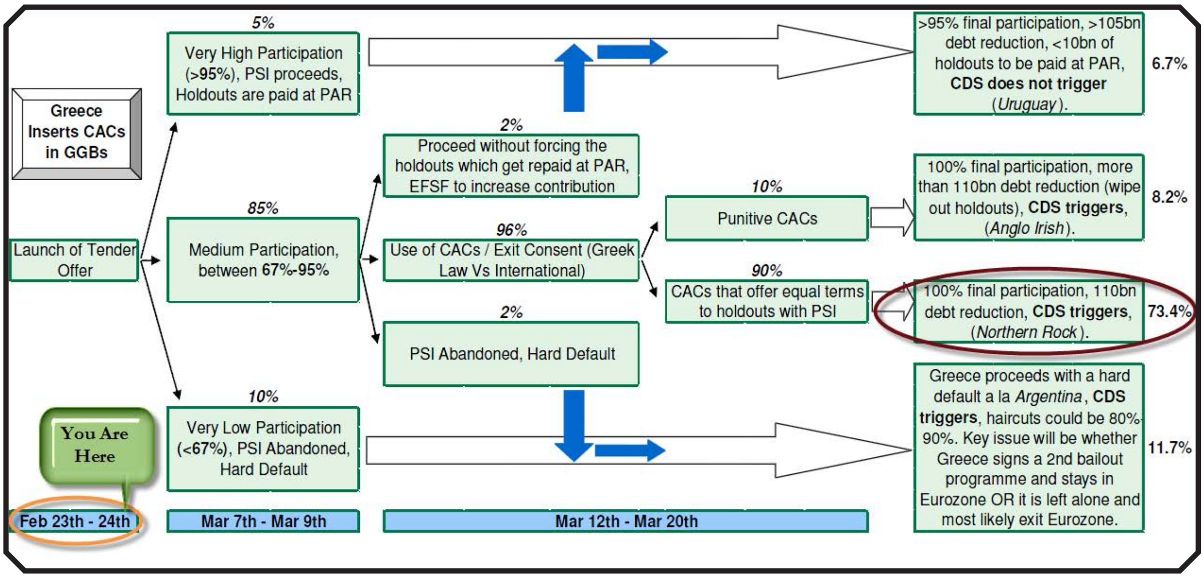
Anyway, Greek agreement to the terms of the bailout came (of course) early on Monday morning and, from the moment they were announced, the frantic backpedaling by those who will be picking up Greece's bar tab began.

Finally, on Friday, we finally got a look at the exact terms of the bailout and the deal agreed upon will look something like this:

Investors will get 31.5% of the face value of their bonds in new bonds.

These new bonds issued will mature in 2042 and pay 2% from 2013 to 2015, 3% from 2016 to 2020, 3.65% in 2021 and 4.3% from 2022. Greece won't have to settle the exchanges unless 90% of the face value of valid bonds in the PSI are tendered.

An additional 15% of the face value of their



CLICK TO ENLARGE

SOURCE: BNP PARIBAS (VIA ZEROHEDGE)

bonds will be paid as two-year EFSF bonds and there will also be a €30bn payment made to bondholders from the second bailout package.

Simple!

The thing is, it has now become abundantly clear that the finance ministers of Europe may have finally gotten the joke as their reluctance to pony up the cash for Greece was made plain through the conditions imposed upon the Greeks before the funds would be released:

> *(FT): A German-led group of creditor countries – including the Netherlands and Finland – has expressed extreme reluctance since they received the report about the advisability of allowing the second rescue to go through...*
>
> *European creditor countries are demanding 38 specific changes in Greek tax, spending and wage policies by the end of this month and have laid out extra reforms that amount to micromanaging the country's government for two years, according to documents obtained by the Financial Times...*
>
> *They range from the sweeping – overhauling judicial procedures, centralizing health insurance, completing an accurate land registry – to the mundane – buying a new computer system for tax collectors, changing the way drugs are prescribed and setting minimum crude oil stocks.*
>
> *Most urgency is attached to a 10-page list of "prior actions" that must be completed by Wednesday in order for eurozone finance ministers to give a final sign-off to the new bail-out at an emergency meeting scheduled for Thursday.*
>
> *Among the measures that must be completed in the next seven days are reducing state spending on pharmaceuticals by €1.1bn; completing 75 full-scale audits and 225 value added tax audits of large taxpayers; and liberalising professions such as beauty salons, tour guides and diet centres.*

Europe's finance ministers are SO keen to get this bailout through that they have given the Greeks SEVEN DAYS to accomplish something they couldn't get done in seven YEARS and THAT is a quite deliberate ploy. If you don't believe ME, then listen to Mike Shedlock:

> *(Mish): The Troika demands 75 full-scale audits and 225 valued added tax audits in 6 days! Is that going to happen?*
>
> *This setup is without a doubt designed to fail and that should have been obvious ever since Germany asked to put a commission in charge of the Greek budget on Feb 7...*
>
> *These new demands are in addition to a requested a constitutional change that is impossible before 2013.*
>
> *It is possible some of the new demands need constitutional changes as well. I simply do not know.*
>
> *As I have said repeatedly ...*
>
> *Germany has put up roadblock after roadblock attempting to get Greece to scuttle the deal, only to have fools like Finance Minister Evangelos Venizelos agree to them.*
>
> *It may be up to Germany to come up with still more ludicrous demands in hope that the Greek finance minister and Greek politicians finally get the message "it's not wise to make a pact with the Troika devil"...*

And that is precisely what is going on here. Germany (and Holland, and Finland, and Austria, and Luxembourg and Belgium and, possibly even France - though they'll be at the back somewhere) are all trying DESPERATELY to get Greece to leave the EU of their own 'free will' by imposing the most ridiculous conditions around the bailout money but, so far, the Greeks have just said "Το Χόβερκράφτ μου είναι γεμάτο χέλια*" to every ridiculous request - safe in the knowledge that they have absolutely no intent on complying once they have the money.

Ominously, the small print of the bailout agreement contained a rather sinister condition - a condition that didn't go unnoticed:

> *(NYTimes): Ms. Katseli, an economist who was labor minister in the government of George Papandreou until she left in a cabinet reshuffle last June, was also upset that Greece's lenders will have the right to seize the gold reserves in the Bank of Greece under the terms of the new deal...*

Greece's 110 tonnes of gold - worth roughly $6.3billion (which represents just about the only physical 'wealth' Greece still possesses), can be appropriated by the Troika in the event of non-payment of a set of bills that there is basically no way they can ever hope to pay. I don't know for certain where the Greek gold is held but I believe it is actually IN the Bank of Greece. Either way, it is hard to imagine circumstances whereby THAT clause getting invoked ends well.

> "Greece's lenders will have the right to seize the gold reserves in the Bank of Greece under the terms of the new deal..."

The selling-out of national sovereignty to protect an essentially political construct that has proven to be poorly-designed has become a farce, played out by a group of politicians who care only about 'face' and the preservation of their own positions rather than representing the best interests of their countrymen. Now, suddenly, it is dawning on the (slightly) more fiscally-sound nations that Greece (and others like it) will continue to be a drain on them until they go their separate ways. Throw in the almost incredible notion that the money just MAY have run out, and you find yourself trapped.

If drawing up a list of parameters that are explicitly designed to force Greece to say 'no' doesn't have the desired effect of them opting out of the Eurozone, then what next?

Well, right on cue, last night, the German Interior Minister, Hans-Pater Friedrich had a little chat with Der Spiegel:

> *(UK Daily Telegraph): Becoming the first*

* Το Χόβερκράφτ μου είναι γεμάτο χέλια - Either means 'yes' or 'my hovercraft is full of eels'. I'm afraid My Greek is a little rusty

member of Germany's cabinet to openly call for a Greek exit, Hans-Peter Friedrich told Der Spiegel magazine that Greece's chances of restoring its financial health would be greater outside the euro.

"I'm not saying that Greece should be thrown out but rather to create incentives that it can't say 'no' to," he added.

His comments came as eurozone leaders faced calls to increase their own efforts before any more money is made available from the IMF. Fresh from agreeing a second €130bn (£110bn) bail-out for Greece, there were hopes that this weekend's gathering of G20 finance ministers in Mexico City would achieve a deal on how to ramp up the IMF's own European war chest by as much as $600bn (£378bn).

Currency unions have imploded regularly over the centuries and life has gone on. In an excellent piece this past week, Jonathan Tepper of Variant Perception outlined just how regular (and surprisingly benign) an occurrence such events have been:

The dissolution of the euro would be an historic event, but it would not be the first currency breakup. Some noted economists have called the euro sui generis*, or one of a kind. In fact, there have been over 100 breakups and exits from currency unions.*

Andrew K. Rose, a professor of International Business at the University of California, Berkeley, has done a study of over 130 countries from 1946 to 2005...The conclusions that ..Rose draws from the study of all the currency exits are remarkable:

I find that countries leaving currency unions tend to be larger, richer and more democratic; they also tend to experience somewhat higher inflation. Most strikingly, there is remarkably little macroeconomic volatility around the time of currency union dissolutions and only a poor linkage between monetary and political independence. Indeed, aggregate macroeconomic features of the economy do a poor job in predicting currency union exits.

Tepper's conclusions to what is a truly fascinating piece of work are extremely interesting:

"...during the past century, over one hundred countries have exited currency areas with little downward economic volatility. The mechanics of currency breakups are complicated, but feasible, and historical examples provide a roadmap for exit. The real problem in Europe is that EU peripheral countries face severe, unsustainable imbalances in real, effective exchange rates and external debt levels that are higher than most previous emerging market crises. Orderly defaults and debt rescheduling coupled with devaluations are inevitable and even desirable. Exiting from the euro and devaluation would accelerate insolvencies, but would then provide a powerful policy tool via flexible exchange rates. The European periphery could then grow again, quickly, much like many emerging markets after recent defaults and devaluations (Asia 1997, Russia 1998, and Argentina 2002). ***The experience of emerging market countries after default ad devaluation shows that, despite sharp, short-term pain, countries are then able to grow without the burden of high debt levels and with more competitive exchange rates. If history is any guide, the European periphery would be able to grow as Asia, Russia and Argentina have.***

"If history is any guide..."

We began this week's musings with a look at some such history in which a group of Europeans erected a structure that, clearly, was flawed and ought to have been pulled down so construction could begin again. Instead of accepting the flaws in their design, they came up with all kinds of ingenious schemes to preserve the existing structure - despite knowing all along that it was eventually doomed to topple over.

The most recent attempts at a temporary fix to a permanent problem involved digging deeper under the foundations in order to gain an extra 300 years.

If only the euro were in the kind of mess which a little digging could prolong for 300 years.

It isn't.

Despite what happened this past week, Greece will leave the euro. It began with the rest of Europe trying to keep them in, it moved to Greece agreeing to anything to keep the monetary largesse flowing and it is now moving into the final phase whereby Greece's benefactors cry 'no mas' and forcibly eject them. At the moment they are trying to do it through coercion - making all kinds of ridiculous requests that any self-respecting sovereign nation would turn down - but, with Greece playing the game for all they're worth (agreeing to everything demanded so they can keep the money flowing until it stops at which point they will simply walk away)somebody has to blink.

It won't be Greece.

****

So, first things first and some housekeeping.

I am traveling to New York for a Global Volatility Summit on March 3rd so it's highly doubtful I will be darkening your inboxes next week but I am dearly hoping that when I DO return, we can spend some time talking about something other than Greece - namely oil.

In the meantime, I leave you in the good hands of, amongst others, David Rosenberg, Ambrose Evans-Pritchard, Greg Weldon, Richard Ross and a group of Burmese punks.

We look at the secondary problems caused by Germany's knee-jerk reaction to Fukushima, try to get some sense as to what is happening in the MF Global debacle, see why Russia could be the next Brazil and Liam Halligan explains why Greece is so 2011, but oil is SO 2012.

The US is a step closer to seeing its most-populous municipal bankruptcy, the EU go into the Greek bailout with the wrong attitude and we look at a chart that will have Dow Theorists hiding under tables everywhere.

Chris Martenson spends an hour chatting to Ben Davies (and we spend an hour listening), Nigel Farage weighs in on the inevitable bailout and the unavoidable fallout and the ECRI have a stark warning about an impending recession that just MAY take some of the shine off the recent risk-on trade.

That should be enough to keep you going for a while.

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

26 February 2012

German Showdown With Imf Looms As Bundestag Blocks Rescue Funds

David Rosenberg Presents The Six Pins That Can Pop The Complacency Bubble

Rising Energy Prices Endanger German Industry

Battle Lines Forming Between MF Global Customers, Hedge Funds

Eurogroup Head Cannot Rule Out Third Greek Bailout

Burma's Punk Scene Fights Repression Underground

Why Russia Could Be A Gusher For Daring Investors

Soaring Oil Prices Will Dwarf The Greek Drama

Stockton to Take Steps Toward Bankruptcy, City Manager Says

Charts That Make You Go Hmmm.....

Words That Make You Go Hmmm.....

And Finally.....

The Gonnie, Gonnie Banks

#	Bank	Assets ($m)	Deposits ($m)	Cost ($m)
10	Central Bank of Georgia, Ellaville, GA	278.9	266.6	67.5
11	Home Savings of America, Little Falls, MN	434.1	432.2	38.8
	Total Cost to FDIC Deposit Insurance Fund			**106.3**

Germany's ruling parties are to introduce a resolution in parliament blocking any further boost to the EU's bail-out machinery, vastly complicating Greece's rescue package and risking a major clash with the International Monetary Fund.

"European solidarity is not an end in itself and should not be a one-way street. Germany's engagement has reached it limits," said the text, drafted by Chancellor Angela Merkel's Christian Democrats and Free Democrat (FDP) allies.

"Germany itself faces strict austerity to comply with the national debt brake," said the declaration, which will go to the Bundestag next week. Lawmakers said there is no scope to boost the EU's "firewall" to €750bn, either by increasing the new European Stability Mechanism (ESM) or by running it together with the old bail-out fund (EFSF).

The tough stance reflects popular disgust in Germany at escalating demands. Bowing to pressure, Chancellor Merkel's office said an increase in the ESM was "not necessary" since Italian and Spanish bond markets have recovered.

Germany is now on a collision course with world powers, the IMF and even key allies in Europe's AAA-core. The Netherlands and Finland are willing to boost the EU firewall to €750bn.

> "Negative feedback loops between weak sovereign debtors, fragile financial markets and a slowing real economy do not yet appear to have been broken"

The IMF has hinted it may cut its share of Greece's €130bn (£110bn) package and warned that its members will not commit $500bn (£318bn) more in funds to ringfence Italy and Spain unless Europe beefs up its rescue scheme.

The US, Asia and Latin America are irked at the reluctance of Europe's rich creditor states to put out the raging fires on their own doorstep. "The Europeans need to do more. That would unlock more support for the IMF from the other G20 countries," said Augustin Carstens, Mexico's central bank governor.

The spat came as Brussels warned that Euroland would relapse into recession this year, shrinking by 0.3pc. Italy is expected to contract by 1.3pc and Spain by 1pc. "Negative feedback loops between weak sovereign debtors, fragile financial markets and a slowing real economy do not yet appear to have been broken," it said. Stock markets slid for a third day as optimism from the Greek deal dissipates.

In Athens, the Greek parliament approved the debt swap with investors, which Commerzbank's chief Martin Blessing described as less voluntary than "a confession to the Spanish Inquisition".

The EU's own experts doubt that it will be enough to put Greece's debt on a sustainable path, while market analysts are scathing. "We forecast a further prolonged economic depression that would leave the debt to GDP ratio at about 160pc to 170pc in 2020," said Citigroup.

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

Suddenly the market finds itself without an explicit backstop. So what are some of the "realizations" that can pop the complacency bubble leading to a stock market plunge, and filling the liquidity-filled gap? Here are, courtesy of David Rosenberg, six distinct hurdles that loom ever closer on the horizon, and having been ignored for too long, courtesy of Bernanke et cie, will almost certainly become the market's preoccupation all too soon.

From Gluskin Sheff

1. The nascent job market improvement was little more than a reflection of deteriorating productivity growth. As such, companies will respond in the spring by curbing their hiring plans. This is exactly what happened a year ago when private payroll gains averaged 207k from January to April and the biggest mistake the emboldened bulls did at the time was extrapolate that performance into the future. No sooner did we mention the likely renewed

corporate focus on reviving productivity growth than we saw Proctor & Gamble announce a 5,700 job cut or 10% of its manufacturing work force — and the stock price was rewarded with a $2 advance.

2. The ballyhooed housing recovery represented a weather report. January was the fourth warmest on record, skewing the data, and February looks to be a record for balmy temperatures. As such, we could be in for a setback in the housing data, and the latest weekly data on mortgage applications for new purchases may already be signaling a renewed downturn in sales activity. The volume index for new purchases was down 2.9% in the week of February 17th on top of an 8.4% slide in the prior week and it has been trending down for four of the past five weeks.

3. The European recession is just getting started (See Recession Looms for 10 Nations on page 2 of the FT) and the impact on Asian trade flows is already evident in the data — with Chinese export growth completely vanishing in January and manufacturing diffusion indices flashing modest contraction in February. We are potentially one to two quarters away from seeing a significant shock to the U.S. GDP data from an eroding net foreign trade performance. To catch a glimpse of just how far reaching the Eurozone recession is, have a look at Austerity in Europe Puts Pressure on Drug Prices on page B6 of the NYT.

4. What upset the apple cart this time last year was the run-up in oil prices, followed by a lag with a surge in gas prices at the pump. So instead of getting the 4.0% first quarter GDP growth number in 2011 that many pundits anticipated, we got 0.4% instead — right digits but in the wrong place. The problem was energy costs and what that did to the GDP price deflator — it crushed real economic growth (this time it's not the Arab Spring but heightened Israel-Iran tensions at play). Within 24 hours of the release of that GDP report in late April, the stock market peaked for the year.

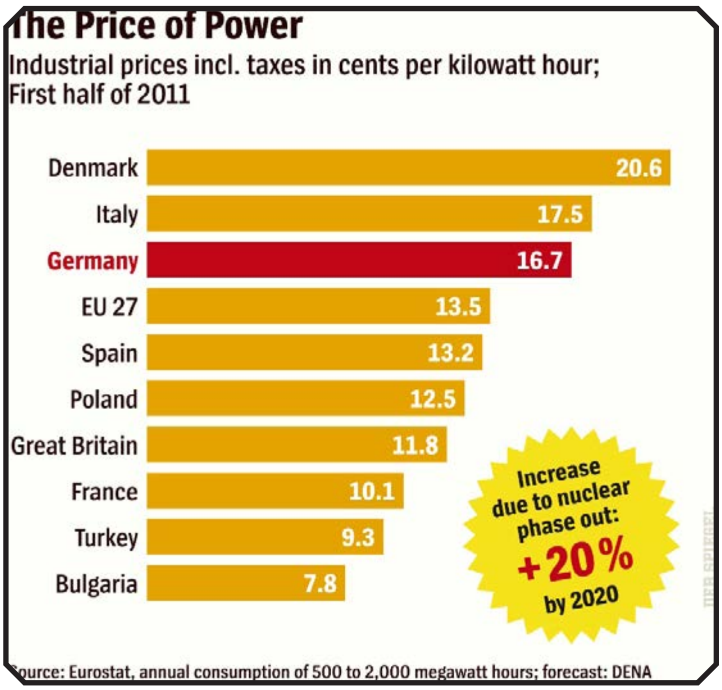
Once again, oil prices have ratcheted up and with a lag, we can probably expect a return to $4 per gallon for regular gas at the pumps by the time spring rolls around. The front page of the USA Today makes the case for why $5 per gallon is likely coming ...

★ ★ ★ *DAVID ROSENBERG (VIA ZEROHEDGE)* / **LINK**

Last spring, Chancellor Angela Merkel set Germany on course to eliminate nuclear power in favor of renewable energy sources. Now, though, several industries are suffering as electricity prices rapidly rise. Many companies are having to close factories or move abroad.

The red signs are still hanging in front of the gate to the steel mill on Oberschlesienstrasse. "Hands off!" they read, or "The Krefeld steel mill must stay!"

But now it's all over. Despite the signs, protests and pickets, ThyssenKrupp, Germany's largest steelmaker, sold its Krefeld stainless steel mill to Finnish competitor Outukumpu two weeks ago.



CLICK TO ENLARGE **SOURCE:** DER SPIEGEL

The new owner plans to shut down production by the end of next year, leaving more than 400 workers without a job. The economic loss to this stricken city on the lower Rhine will be significant.

The closing of the Krefeld mill cannot be blamed on low-wage competition from the Far East or mismanagement at ThyssenKrupp's Essen headquarters, but rather on the misguided policies of the German government. That, at least, is the view held by those affected by the closing. Since Chancellor Angela Merkel's government abruptly decided to phase out nuclear energy last spring in the wake of the nuclear disaster in Fukushima, Japan, the situation for industries that consume a lot of electricity has become much more tenuous.

> "... Since Chancellor Angela Merkel's government abruptly decided to phase out nuclear energy last spring in the wake of the nuclear disaster in Fukushima, Japan, the situation for industries that consume a lot of electricity has become much more tenuous

Energy prices are rising and the risk of power outages is growing. But the urgently needed expansion of the grid, as well as the development of replacement power plants and renewable energy sources is progressing very slowly. A growing number of economic experts, business executives and union leaders are putting the blame squarely on the shoulders of Merkel's coalition, which pairs her conservatives with the business-friendly Free Democrats (FDP). The government, they say, has expedited de-industrialization.

The energy supply is now "the top risk for Germany as a location for business," says Hans Heinrich Driftmann, president of the Association of German Chambers of Industry and Commerce (DIHK). "One has to be concerned in Germany about the cost of electricity," warns European Energy Commissioner Günther Oettinger. And Bernd Kalwa, a member of the general works council at ThyssenKrupp, says heatedly: "Some 5,000 jobs are in jeopardy within our company alone, because an irresponsible energy policy is being pursued in Düsseldorf and Berlin."

In macroeconomic terms, the impending demise of heavy industry is all the more worrying, because the job losses will not be offset elsewhere. There is no sign yet of the green economic miracle that the federal government promised would accompany Germany's new energy strategy. On the contrary, many manufacturers of wind turbines and solar panels complain that business is bad and are cutting jobs. Some solar companies have already gone out of business. The environmental sector faces a number of problems, especially -- and ironically -- those stemming from high energy prices.

★ ★ ★ *DER SPIEGEL* / **LINK**

The MF Global saga could soon become a legal battle between hedge funds and the futures brokerage's shortchanged customers, with more than a billion dollars at stake.

As the investigation into the collapse of the Jon Corzine-led brokerage moves into more of a regulatory whodunnit than a criminal case, the guessing game centers on who the two court-appointed trustees overseeing MF Global's liquidation will sue to recoup money owed to customers of MF's broker-dealer unit and creditors of its parent.

Those decisions are not easy ones, legal experts say, and they could end up pitting hedge funds like David Tepper's Appaloosa Management and Paul Singer's Elliott Management - who own MF Global bonds - against brokerage customers trying to recover an estimated $1.6 billion shortfall in their accounts.

It's likely that James Giddens, the trustee in charge of recovering customer funds, and Louis Freeh, the trustee in charge of recovering money for parent creditors, will dispute the ownership of certain assets, said attorney Chris Ward, vice chair of Polsinelli Shughart's bankruptcy practice, who is not involved in the case.

A more complex battle could arise from the fact that both customers and bondholders claim priority for payouts from MF Global's general estate.

Customer groups have said that if efforts to recoup customer cash do not make them whole, they have a right under Commodity Futures Trading Commission regulations to demand payment from the parent company.

"Customers are going to claim they should be satisfied in entirety first before one penny goes to" MF Holdings' bond holders and other creditors, said Fred Grede, an attorney who served as trustee for fallen cash-management firm Sentinel Management Group.

But distressed debt investors like Elliott and Appaloosa, who scooped-up MF Global's bonds after the firm filed for bankruptcy on October 31, say bankruptcy laws paint a different picture, one giving them priority over customers for general estate payouts.

"I will not be surprised at all if sometime in the near future you find Freeh and Giddens as adversaries," said attorney Chris Dickerson, who is not involved in MF Global but represented defunct financial services firm Refco in its 2005 bankruptcy.

"...You can never exclude a new crisis..."

A spokeswoman for MF Global Holdings said Freeh will not know exactly how much creditors of the parent company are owed until claims are filed. The company has $650 million in senior debt and another $850 million in subordinated debt, the spokeswoman said.

Before any decision can be made on the order of payouts, Giddens and Freeh, the former FBI director, must think strategically about which deep-pocketed institutions to pursue.

Some of the likely litigation targets are MF Global's main trading partners, its primary banker JPMorganChase, and clearinghouses that processed last minute trades for MF Global as it spiraled towards bankruptcy. Another possibility is MF Global's own United Kingdom affiliate, where about $700 million in customer money is tied up.

But recovering any funds won't be easy.

"In terms of resources, the worst counterparty in the world to go up against in court is the government," said one bankruptcy lawyer, who asked not to be named due to relationships with firms that have a stake in the outcome of potential litigation. "The next is JP Morgan."

★ ★ ★ *REUTERS* / **LINK**

The head of the Eurogroup of euro zone finance ministers, Jean-Claude Juncker, said on Friday he could not rule out that Greece may need a third bailout.

Euro zone finance ministers struck a deal on Tuesday for a second bailout program for Greece that includes new financing of 130 billion euros and aims to cut Greece's debt to 121 percent of GDP by 2020.

Asked in a television interview if he could be sure Greece would not need a third bailout, Juncker said: "You cannot really exclude that, although we should not have as a starting assumption that a third program will be (needed)."

"We made it clear last Tuesday in Brussels that we are standing ready to support Greece even beyond the time period of this program but I have good reasons to believe that we should now not engage ourselves in a debate on a 'maybe' third program. We should now ... implement the second one," he said, interviewed by David Frost on Al Jazeera.

Asked about some experts' view that a Greek default is inevitable, Juncker said: "I don't see that Greece would go for a default."

The euro zone was doing everything to avoid a disorderly default by Greece, which would have had "tragic consequences, not only for Greece, but for the whole euro area as such," he said.

On whether Greece would succeed in staying in the euro zone, Juncker said: "You can never exclude a new crisis although I do consider that, being at the epicenter of the global threat, we are slowly regaining safe territory."

Under the agreement, private sector holders of Greek debt will take losses of 53.5 percent on the nominal value of their bonds.

However, Juncker said he believed private creditors would lend to Greece again.

"As the private sector and the official sector now can envisage the Greek future and the future of the euro area with some optimism, I don't believe that private sector representatives will step away from Greece," he said.

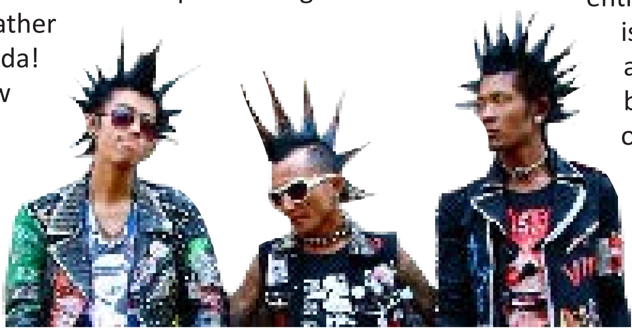
Juncker said he was "satisfied" with the worldwide reaction to the deal on Greece struck this week. Financial markets had reacted in a "proper way" and "things have improved", he said.

"We were not really rejoicing when we were concluding the deal. Nobody was dancing on the table ... We had to deliver in order to restore stability in Greece and credibility around Greece," he said.

REUTERS / **LINK**

Despite signs of greater openness, Burma's government continues to wield an iron fist. Among its targets is the punk scene, whose bands are forced to play and practice in secret to avoid harsh punishments. Here, punk isn't a lifestyle. It is an act of genuine rebellion.

The punk band Rebel Riot stands on a makeshift stage in an abandoned restaurant on the outskirts of downtown Rangoon, Burma's largest city. They wear their hair spiked straight up and studded leather jackets. "Saida! Saida! Saida!" singer Kyaw Kyaw barks into the microphone, "Resistance! Resistance! Resistance!" The drummer pounds away at his set while the guitars reverberate through the room. "No fear! No indecision! Rage against the system of the oppressors!" Kyaw Kyaw howls.



Meanwhile, about 50 fellow punks, none much older than 25, are romping around in front of the stage wearing T-shirts that say "Fuck Capitalism" or "Sex Pistols." They jump around wildly and fling themselves to the ground. The air is hot and sticky. The entire crowd sings along: "Resistance! Resistance! Resistance!"

In Burma, punk is far more than just a superficial copy of its Western counterpart. Here, what is probably the most rebellious of all subcultures in the Southeast Asian country is going up against one of the world's most authoritarian regimes. Punk gives young Burmese a chance to symbolically spit in the face of the hated government, which took power in 2010 in the wake of what was widely considered a fraudulent election. Although the government has show initial signs of greater open-mindedness, which included the released of political prisoners in recent months, Burma is still far from a state that embraces the rule of law.

"We young people in Burma have become punks to protest against the political and economic situation in our country," Kyaw Kyaw says. He says there are about 200 punks in Rangoon and perhaps another hundred in Mandalay, the country's second-largest city.

A few days after the concert, Kyaw Kyaw is at home. Wearing a Ramones T-shirt and tight jeans, he is sitting on a battered plastic chair in the room he shares with his parents and two siblings. Behind a partition is the pallet the entire family sleeps on. The roof is made of corrugated metal, and they prepare meals in a brick fireplace. The 24-year-old works at a textile factory, where he earns the equivalent of €50 ($65) a month. Pointing to his studded leather jacket, he says, "For this, I had to save for an entire year."

Living in poverty is frustrating enough for Burmese like Kyaw Kyaw. But it becomes unbearable when they learn about the indulgent lifestyles of the ruling elites who park their luxurious SUVs in front of cream-colored villas in the sealed-off capital of Naypyidaw.

"The government keeps the people in poverty," says a 30-year-old who goes by the name of Scum, spitting on the ground. "It's a daily struggle just to get by." Protests are rarely possible, he says. Scum is one of the leaders of Rangoon's punk scene. He is sitting on a tattered sofa, the only piece of furniture in his narrow one-room apartment. Dirty dishes are piled up on the floor. In the corner, there's a box with English-language books. Scum studied literature, but now he makes a paltry income selling tickets for an illegal lottery. He refuses to have a legal job because he says it "would only be supporting the government."

DER SPIEGEL / **LINK**

When oil prices collapsed in the wake of the 2008 economic crisis, Russia, the world's top oil-producer, was hit hard and investors fled. More than three years later, foreign money appears to be returning to some retail-equity funds. But as presidential elections approach and political uncertainty grips the nation, nerves are once again setting in.

According to analysis by Russian investment bank Troika Dialog, $475 million cascaded into Russian retail funds in the 12 months through Feb 15. Russia was the second-most popular investment destination after China among the so-called BRIC countries (Brazil, Russia, India, China), despite its comparatively slow economic growth and its greater exposure to the troubled European region.

Since parliamentary elections in December, Moscow's wintry streets have witnessed something not seen in two decades: huge demonstrations against the Kremlin. While Vladimir Putin may secure another term in next month's elections, time is working against the Russian president, Greg White reports.

The growing interest in Russia comes at a time when oil prices are rising and the country is recovering strongly from the global economic crisis. State statistics agency Rosstat in January reported that the economy grew by 4.3% in 2011, surpassing forecasts. Continued growth is expected in 2012, though at a more subdued rate, as Europe, a major customer of Russian oil, continues to struggle with its sovereign debt crisis.

Russia-focused analysts also point to falling inflation, strong exports and increasing retail sales as reasons to be bullish on the country. Increased demand from the Russian middle class, which is growing in both number and influence, is also bolstering sentiment.

Bank of America Merrill Lynch analysts have even suggested that Russia could be "the next Brazil," if it considers wooing foreign investors to help develop offshore oil and gas resources, as the South American nation has done in recent years.

> "Bank of America Merrill Lynch analysts have even suggested that Russia could be "the next Brazil," if it considers wooing foreign investors to help develop offshore oil and gas resources..."

Investor confidence in Russia has recently been knocked by a series of mass anti-government protests that erupted in response to a parliamentary election in December. Troika Dialog data revealed that at the end of January all other emerging market country funds attracted new money, but Russian funds reported outflows.

Further, preliminary figures from Russia's central bank show that capital flight from Russia in 2011 totaled $84.2 billion, its highest level since the 2008 crisis.

The exodus is partly down to the heightened political instability triggered by the presidential elections slated for March 4. And though the main target of the rallies, Prime Minister Vladimir Putin, is widely expected to win the presidency, analysts are not convinced his victory will quash the unrest...

Investors also see risk in Russia's dependence on its energy sector. Unlike other emerging market economies, including India and China, its economy is extremely vulnerable to commodity price changes.

But fund managers say this heightened risk represents a significant opportunity to make timely investments.

★ ★ ★ *MARKETWATCH* / **LINK**

Enough of Europe, though. Despite the eurozone's overwhelming ability to set the tone in terms of global investor sentiment, other economic indicators deserve attention – not least the price of oil.

Brent crude hit a nine-month high on Friday, breaking through $125 (£79) a barrel. While the black stuff remains $24 below the all-time nominal peak of July 2008, it is now above those levels in terms of both sterling and the euro. Oil prices are up 14pc since the start of the year. That's obviously bad news for the big Western energy-importers, the UK included, that are struggling to generate sustainable economic recovery.

"While the escalation of any kind of tension in the Middle East is obviously a serious matter, I don't accept that is why crude prices are high. The real reason –perhaps less interesting, but no less important for that – is simple demand and supply

Oil is soaring, we're told, because the International Atomic Energy Agency (IAEA) has just issued a report on the nuclear ambitions of Iran, the world's third-biggest crude exporter. Responding to European and US sanctions on its oil exports, due to bite in July, Iran refused inspectors access to the Parchin military complex where the IAEA has "reason to believe" a nuclear detonation device has been tested. As such, the risk of near-term anti-Iranian military action has apparently just risen sharply, not least because a US presidential election is looming into view.

Iran is obviously feeling emboldened. With the US withdrawing from Iraq, Tehran has warned that, in a bid to stem "outside meddling" in its affairs, it might try to disrupt energy exports from the Persian Gulf. This is no empty threat. Iran controls the northern shore of the Strait of Hormuz, the 20-mile wide pinch-point through which passes daily over a third of the world's seaborne oil shipments.

While the escalation of any kind of tension in the Middle East is obviously a serious matter, I don't accept that is why crude prices are high. The real reason –perhaps less interesting, but no less important for that – is simple demand and supply. Global crude use is soaring, while the most important oil wells on earth are rapidly depleting.

In 2001, the world consumed 76.6m barrels of oil a day. Last year, just a decade on, global oil use was a hefty 89.1m barrels daily, 16pc higher. In 2011, the world economy was sluggish, with global GDP growth of 3.8pc, down from 5.2pc the year before. Yet world oil use still rose almost 1pc in 2011, with crude averaging $111 a barrel, more than 40pc up on 2010.

The International Energy Agency (IEA), the energy think-tank funded by oil-importing Western governments, tells us that crude demand is "declining remorselessly throughout the OECD [countries]". Given that the Western economies remain weak and the eurozone is heading for recession, the "advanced economies" are consuming less crude.

The fine print shows, though, that even IEA demand projections, which tend to be underestimates, show OECD oil use falling just 0.9pc in 2012. Demand among the non-OECD countries, meanwhile, including the emerging giants of the East, is forecast to rise 2.8pc. Total global crude consumption, then, is still set to increase by another 1pc this year, mimicking the trend of 2011.

The "demand destruction" thesis is useful for Western governments desperate for cheaper oil – and it used to be true.

★ ★ ★ *LIAM HALLIGAN* / **LINK**

Stockton, California, may take the first steps toward becoming the most populous U.S. city to file for bankruptcy next week because of burdensome employee costs, excessive debt and bookkeeping errors that misrepresented accounts, city officials said today.

The Stockton City Council will meet Feb. 28 to consider a type of mediation that allows creditors to participate, the first move toward a Chapter 9 bankruptcy filing under a new state law. The council will also weigh suspending some payments on long-term debt of about $702 million, according to a 2010 financial statement.

"Somebody has to suffer and in this case the city manager has decided it should be the bondholders who suffer," Marc Levinson of the Sacramento-based law firm Orrick, Herrington & Sutcliffe LLP, which represents the city, said at a news briefing at Stockton's City Hall today.

"Somebody has to suffer and in this case the city manager has decided it should be the bondholders who suffer,"

Stockton, a farming center about 80 miles (130 kilometers) east of San Francisco, has fought to avert bankruptcy by shrinking its payroll, including a quarter of the roughly 425- member police force. At 292,000, the city has more than twice as many residents as Vallejo, California, which became a national symbol for distressed municipal finance in 2008 when it sought protection from creditors.

Stockton's council will be asked to reduce the current budget by $15 million because of newly uncovered accounting errors and fiscal mismanagement that have left the city almost broke, City Manager Bob Deis told reporters. To keep the city solvent through the end of the fiscal year June 30, the City Council will be asked to default on $2 million of debt payments owned to bond holders.

"Our employees and the citizens of Stockton who receive city services have borne the entire brunt of our restructuring efforts so far and now it's time for others to do the same," Deis said in a report to the council. "We can't 'grow our way' out of the problem and no amount of forward looking financial planning will properly fix it."

Deis said he wants to use the mediation process to work out a compromise with creditors such as bondholders and with labor unions representing city workers before the city needs to seek bankruptcy protection.

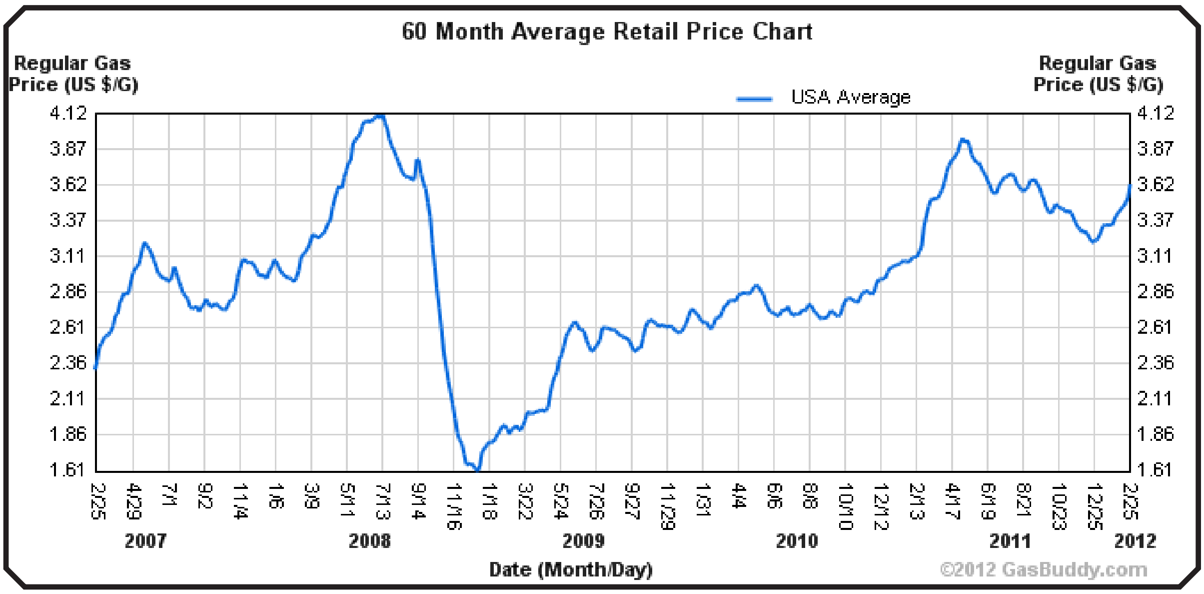
"This is all being done with the goal of getting to June 30," Deis said. "It's always best to negotiate and work out a settlement."

★ ★ ★ *BUSINESSWEEK* / **LINK**

There's divergence.... and then there's DIVERGENCE.

Any Dow Theory adherents out there will recognize this pattern as the Dow Transports flash a sell signal, but the extremity of this particular case bears close scrutiny...

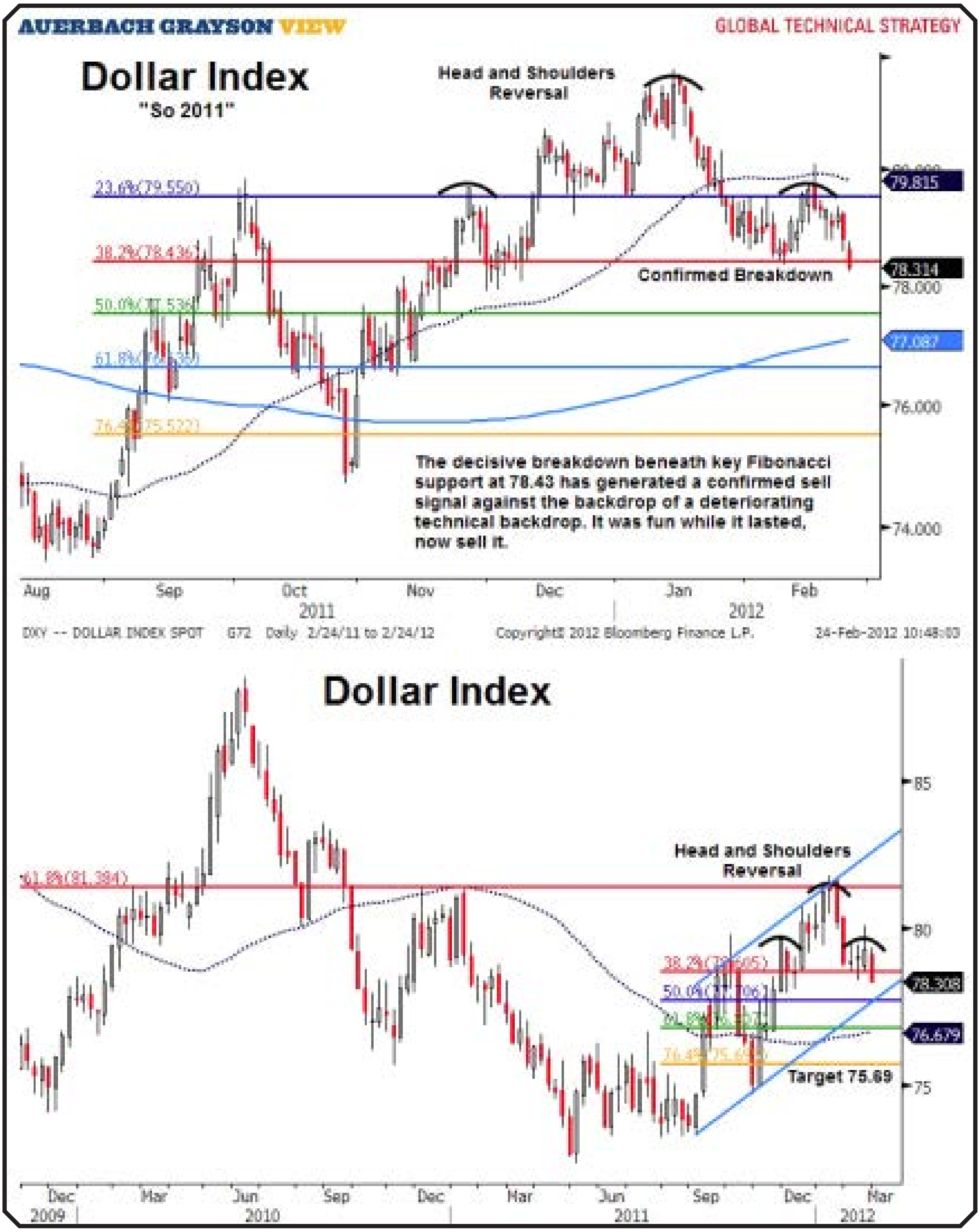
I think we all know by now that there is a level on the chart below where, suddenly, people start to care a whole lot. It's not very far away from here...

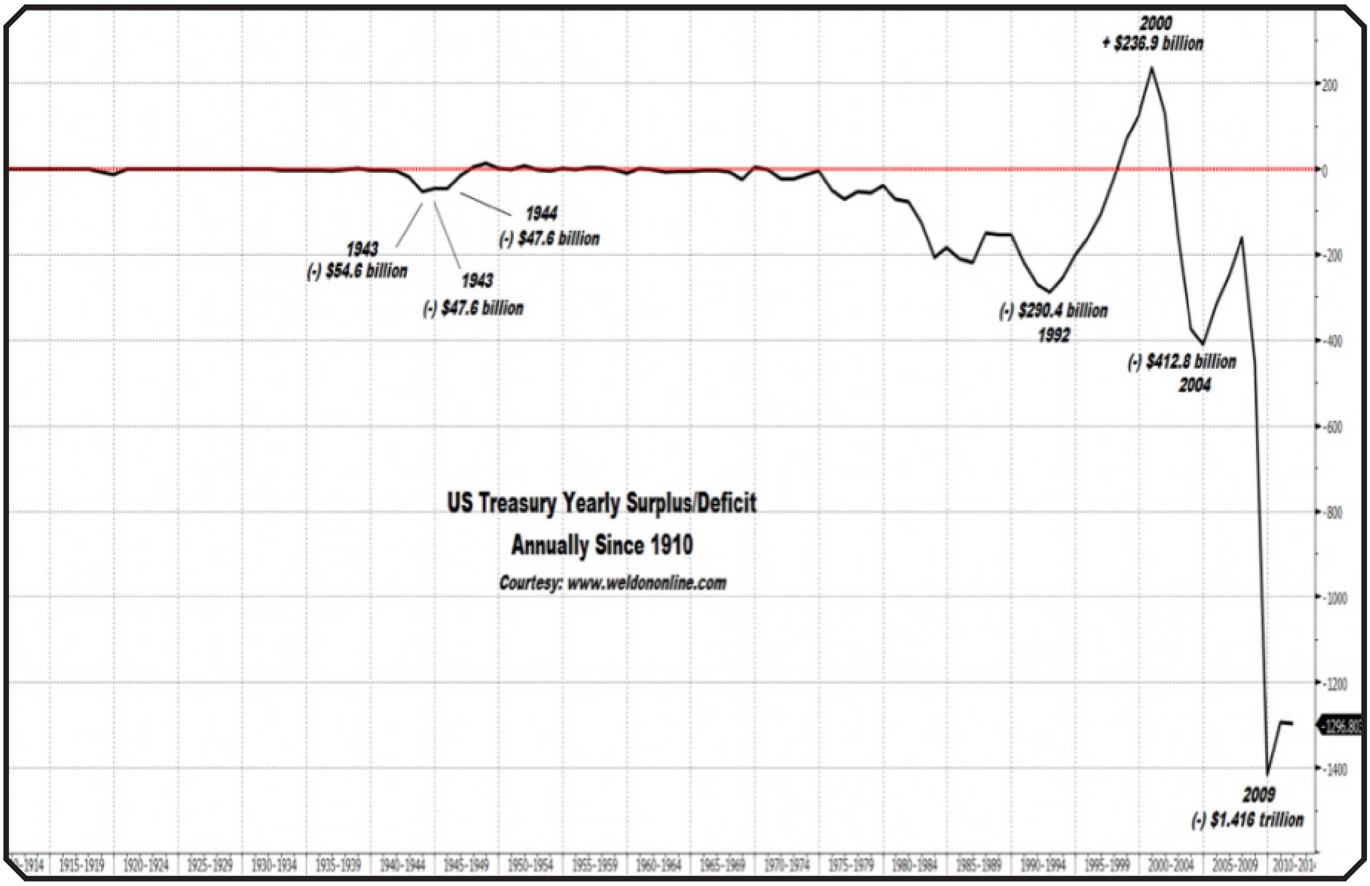


CLICK TO ENLARGE

SOURCE: GASBUDDY

Richard Ross of Auerback Grayson on the dollar. In short? It's going lower, but Richard makes it a lot more fun than I ever could. Email him at rross@agco.com if you'd like to find out more about his work - you'll be glad you did





CLICK TO VIEW PRESENTATION

SOURCE: WELDONONLINE

I was fortunate to meet Greg Weldon and his wife Eileen whilst in Palm Springs a couple of weeks ago. Greg has long been another of my favourite chartists and his work is always exceptional. He gave a fantastic presentation on The New Macro-Monetary Era which was put up on Business Insider this week and, in my opinion, makes for compulsive viewing.

SOURCE: WELDONONLINE

You can sign up for a free trial of Greg's work by clicking HERE and I would heartily recommend you do so as his charts are always stimulating and his commentary razor-sharp.

CLICK TO LISTEN

Ben Davies of Hinde Capital is NOT just a precious metals investor. In this interview with Chris Martenson, he demonstrates exactly why he has become one of the shooting stars of the investment management industry.

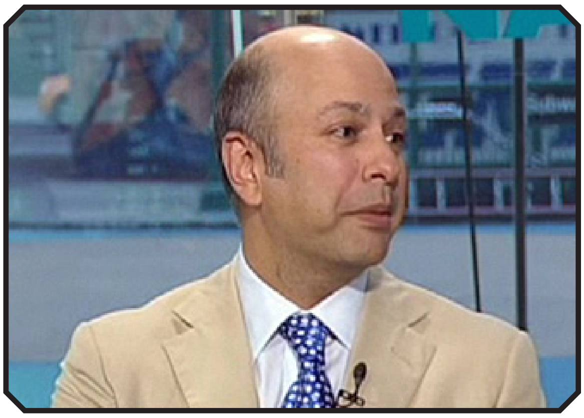
Chris and Ben discuss Greece, the futility of investing in bond markets, equities, the problem with math that doesn't work and, of course, gold.

Absolutely fascinating.

(Thanks BA)

Five months ago, the ECRI made a very definitive and unwavering recession call going even so far to say that "there's nothing that policy makers can do to head it off." Since then, the markets have rallied strongly on the heels of recent positive economic data, leading many in the mainstream financial press to accept that the U.S. has narrowly averted an impending recession and will begin to see growth. Not so, said Lakshman Achuthan, ECRI's chief economist and spokesman; citing under no certain terms that "nothing has changed our view".

VIA FINANCIALSENSE / LINK



CLICK TO WATCH

CLICK TO LISTEN

Nigel Farage talks Greek deals, puppet prime ministers, Europe and gold. How can this not be fun?

Amir Sayoud is about to take a penalty for Al Ahly against Kima Aswan in the Egyptian Football league.

That's him, in the red shirt approaching the ball.

A few seconds after this still was taken, Sayoud's face was left redder than his shirt.

The referee administered the coup de grace as he reached into his pocket...

CLICK TO WATCH

Hmmm…

SUBSCRIBE UNSUBSCRIBE COMMENTS