THINGS THAT MAKE YOU GO

Hmmm...

A walk around the fringes of finance

"Spain is not Greece"

– ELENA SALGADO, *SPANISH FINANCE MINISTER, FEBRUARY, 2010*

"Portugal is not Greece"

– The Economist, *22 April, 2010*

"Ireland is not in Greek territory"

– Brian Lenihan, *Irish Finance Minister*

"Greece is not Ireland"

– George Papandreou, *Greek Finance Minister, 22 November, 2010*

"Spain is neither Ireland nor Portugal"

– Elena Salgado, Spanish FInance Minister, 16 November, 2010

"Neither Spain nor Portugal is Ireland"

– Angela Gurria, Secretary-General, OECD, 18 November, 2010

"Spain is not Uganda"

– EMARIANO RAJOY, *SPANISH PRIME MINISTER, JUNE 9, 2010*

"Italy is not Spain"

– ED PARKER, *FITCH MD, 12 JUNE, 2012*

In 1335, a Spanish author named Don Juan Manuel (left) published a book of Castillian folk tales entitled *'Libro de los ejemplos del conde Lucanor y de Patronio'* or, to give it its English title, *'Book of the Examples of Count Lucanor and of Patriono'*.

The book was divided into four parts, the first of which—a collection of 50 short stories, many of which consisted of no more than a few paragraphs and were drawn from sources as diverse as Aesop and Arabian folktales—became the most widely-known and was subsequently translated into dozens of languages.

Over 200 years later, in 1575, the book was published in Seville as *'Tales of Count Lucanor'* and, 67 years later still, in 1642 it was published once more—under the same title— in Madrid. After that, the manuscript lay forgotten for almost two centuries.

Many of the stories contain plotlines familiar to millions:

Tale 28 *'Of what happened to a woman called Truhana'* is eerily similar to Aesop's 'The Milkmaid And Her Pail', Tale 44 *'Of what happened to a young Man on his Wedding Day'* is Shakespeare's *'The Taming Of The Shrew'* by any other name and Tale 23 *'What happened to a good Man and his Son'* is the fable of *'The Miller, His Son And The Donkey'*. But it is Tale 7 with which we shall concern ourselves today; *'Of that which happened to a King and three Impostors'.*

This particular tale was translated into German under the title *'So ist der Lauf der Welt'* (which, as far as my elementary German will take me, means something along the lines of *'That's The Way The Cookie Crumbles')* and it was this German translation that was read by a 32 year-old Danish author named Hans Christian Anderson and so captivated him that he went on to rewrite the story in his own inimitable style for inclusion in the third and final part of his collection of magical stories entitled *'Fairy Tales Told For Children'*.

This last volume—which contained 'The Little Mermaid'—was published in April 1837 to rave reviews and has subsequently been translated into well over a hundred languages.

Under Anderson's masterful care, *'So Ist Der Lauf der Welt'* became a story familiar to millions; *'The Emperor's New Clothes'*.

The story begins thus:

> *Once upon a time there lived a vain Emperor whose only worry in life was to dress in elegant clothes. He changed clothes almost every hour and loved to show them off to his people.*
>
> *Word of the Emperor's refined habits spread over his kingdom and beyond. Two scoundrels who had heard of the Emperor's vanity decided to take advantage of it. They introduced themselves at the gates of the palace with a scheme in mind.*
>
> *"We are two very good tailors and after many years of research we have invented an extraordinary method to weave a cloth so light and fine that it looks invisible. As a matter of fact it is invisible to anyone who is too stupid and incompetent to appreciate its quality."*

From that simple beginning, the story goes on to demonstrate how definitive pronunciations from those in a position of power can prevent the masses from understanding what is staring them in the face but that it only takes one person either clever enough, brave enough or, in this case, naïve enough to speak out to suddenly bring realization crashing down upon the rest of the hordes and thus create carnage.

In 2003, Hollis Robbins published *'The Emperor's New Critique'* which set forth the compelling case that the story—like the clothes of the Emperor himself—was so utterly transparent as to require no critical scrutiny. Hollis asserted that:

> *"... Andersen's tale quite clearly rehearses four contemporary controversies: the institution of a meritocratic civil service, the valuation of labor, the expansion of democratic power, and the appraisal of art".*

In his summation, Robbins concluded that the story's appeal lay in its "seductive resolution" of the conflict by the truth-telling boy.

I have no doubt you can already see where I am going with this, but indulge me if you will and let's take a look at the relevance of this age-old fable in today's troubled world.

At any point in time, there has never been a shortage of naysayers—the difference today is that, with the advent of the internet, those who take a contrary position to the accepted wisdom of the day have an outlet that both enables them to reach millions and preserves their prognostications for posterity. There really is nowhere to hide.

> ***nay·say·er [ney-sey-er]***
> **noun**
> **a person who habitually expresses negative or pessimistic views"**

Mainstream forecasters, however—even those with impeccable credentials—are often the wrongest of the wrong.

As far back as 1929, amidst the clarion call of naysayers warning of impending disaster, highly-regarded Yale economics professor, Irving Fisher, famously predicted that:

> *"...Stocks have reached what looks like a permanently high plateau."*

A matter of days later, stocks hit highs they would take over twenty years to recover.

Fast forward to May 2006 and Alan Greenspan, who reassured the world that stable prices were replacing the boom in the economy:

> *(Sun-Sentinel): Former Federal Reserve Chairman Alan Greenspan said the five-year housing "boom is over," though prices won't fall nationally.*
>
> *"We're not about to go into a situation where prices will go down," Greenspan, 80, said in response to questions Thursday evening at a reception in New York hosted by the Bond Market Association. There is "no evidence home prices are going to collapse."*
>
> *Greenspan echoed comments earlier in the day by his successor, Ben S. Bernanke, who said housing is undergoing a "very orderly and moderate cooling," and that central bankers are monitoring the market to help shape their analysis of the economy's performance.*

That Greenspan quote, however, was taken from a blog posting by Mike 'Mish' Shedlock—one of the most prescient of all naysayers—entitled 'Greenspan Predicts Housing Bust'. Let's broaden the quote and see what a naysayer looks like:

> *With his "permanently high plateau" call, Greenspan all but assured prices are about ready to collapse. Bear in mind there was no evidence of a Nasdaq crash in Spring of 2000 either. But given that Greenspan has been wrong at every critical juncture in his entire career, we know housing will collapse sooner or later.*

Of course, at the time, Shedlock's position was entirely contrary to that of both the establishment and the mainstream media who championed the never-ending good times and lampooned those who dared to predict any kind of impending doom and his readership levels were far lower than those of any number of mainstream outlets.

But Shedlock wasn't alone.

There were many others who saw trouble coming and had the courage to speak out in an attempt to convince the public that things most definitely weren't as rosy as those with a vested interest would have them believe, but those voices were largely screaming in a vacuum - at least until it was too late.

Step forward Bill Fleckenstein who, in August 2003, had this to say to a world with its fingers fixed firmly in its ears:

> *How much people are willing to suspend disbelief is what's eye-opening here, ... It's a window on the big picture This idea of speculating one's way to prosperity is still with us. People come right back, like a moth to a flame.*

2003/2010/2011/2012—whatever.

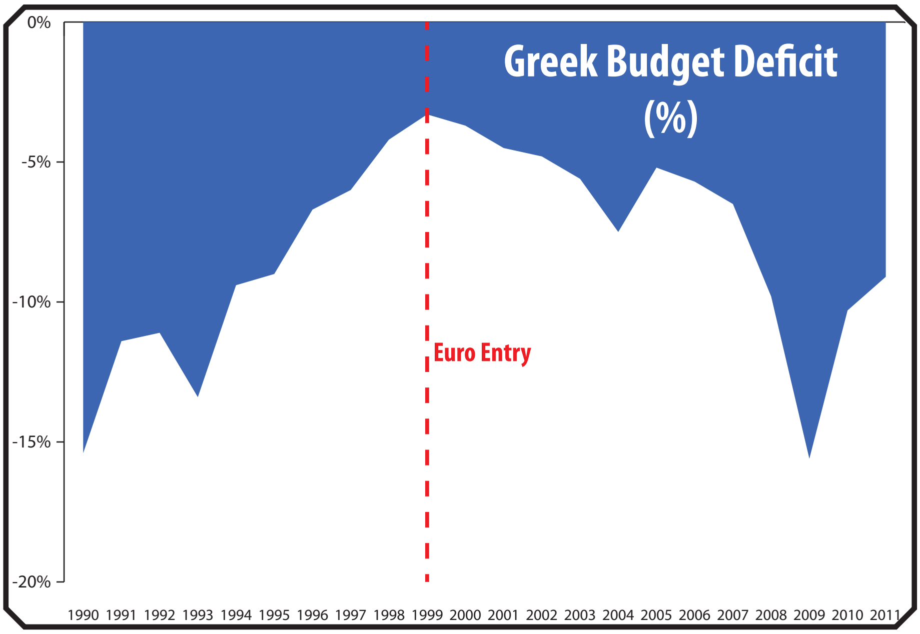
The list of naysayers from the early 2000s is long and, with the passage of time, looking increasingly more distinguished (Gary Shilling, Steve Keen, Nouriel Roubini Michael Burry, Jeremy Grantham and my good friend David Tice to name but a few of many whom history has now identified) and hindsight demonstrates they were seeing the landscape far more clearly than those decrying them, but we are going to move forward in time to see if things are any better after the upheaval of 2008. Surely, the lack of clothing on the Emperor is plain for all to see?

Well, yes. And no.

Our story begins on January 1, 2001 when a little country called Greece brought its 11.3 million citizens into the Eurozone and, in doing so, waved farewell to the Drachma in favour of adopting the euro. A little under four years later, in November 2004, the Greek government (led by New Democracy's Kostas Karamanlis) admitted that they had, in fact, lied about their budget deficit in order to gain admission to the euro and that they had not been in accordance with the EU's 3% of GDP limit since 1999 as the rules dictated. Not to worry though—Greece and the rest of Europe sure were wearing some pretty robes.

The cost of hosting the 2004 Olympics layered on more debt but Greece, thanks to their membership of the euro and the low interest rates it engendered, managed to finance this (it seemed) and, by November 2009 though their budget deficit was 6%, the constant promises that all was under control were taken at face value by a public smitten with the elegant cloth covering the Greek emperors.

Then, on November 5th, 2009, after an election defeat to George Papandreou's PASOK party, New Democracy was voted out and Greece, Europe and the world were given a rather nasty shock when it was announced that the outgoing government had cooked the books and that the budget deficit was, in fact, 12.7%—more than double the previously-published number.



SOURCE: BLOOMBERG/TTMYGH

Amazingly, despite some fluctuations in currency, stock and bond markets, the pronouncement in January of 2010 by the Greek government that they were going to reduce their budget deficit to 2.8% of GDP by 2012 was enough to convince investors that all was, if not exactly 'well', then under control to a great extent and that 'steps would be taken'/'there was a plan'. Riiiiight.

Despite the concerns of many in the crowd, to most, the Emperor still looked resplendent.

Greek promises were enough to secure the offer of a €30bln aid package for the beleaguered nation in April 2011 from Eurozone finance ministers (a €30bln aid package that was increased to €45bln—a 50% increase—a few days later). Though Greece initially refused this money, their resolve lasted precisely 12 days before, on April 23rd, they were officially forced to request a bailout.

"...the ministers vacillated and did nothing for six months, hoping against hope that public finances might turn around."

By May 2, a matter of 9 days later, the size of the bailout had more than doubled to €110bln over three years—€14.5bln of which was disbursed on May 18 in order that Greece be able to repay its immediate debt and avoid a costly default.

The weeks and months after the bailout became a whirlwind of summits, press conferences, agreements, statements, projections and rosy estimates of just how the Greek 'problem' could be 'contained', 'managed' and even 'fixed'.

Rewind.

> ***In January 2010, Greece told the world that they would lower their budget deficit from 12.7% to 2.8%.***
>
> ***In two years.***

That's the same Greece that lied to get INTO the Euro in the first place by using complex swaps to reduce their visible deficits by €2bln (a practice, incidentally, that Italy in 1996, France in 2000 and mighty Germany in 2004 have all adopted variations of).

The same Greece who buried billions in expenses in their National Defense Budget so they could claim the accounts were classified as a matter of 'National Security' and thus not open to outside auditors.

Yes. That Greece.

How are those robes looking now? A little more flesh-toned, perhaps?

You'd think.....

Amazingly enough, things held together in the wake of these ridiculous promises and Europe's Emperors somehow managed to parade around naked without a peep from all but a few voices in the crowd—but then, in the scheme of things, it's not as though Greece is any kind of pioneer as Liaquat Ahamed demonstrated in his Pulitzer Prize-winning book *Lords of Finance*:

> *The deception had begun as far back as March 1924. The government, finding it difficult to attract new buyers for its short-term debt, was forced to ask the Banque for an advance to cover some of its maturing bonds. But the amount of currency that the Banque could issue was limited by law and, in the embattled climate of the time, the government did not wish to face the political embarrassment of asking the National Assembly to raise the ceiling. Obliging officials at the Banque had found a way of issuing extra currency but disguising the fact with an accounting ruse, at first a technical, almost trivial adjustment, which no doubt those involved thought a temporary and justifiable expedient. But the scope of the operation had progressively grown and by April 1925, the "fake balances"*—les faux bilans—*amounted to some 2 billion francs, equivalent to 5 percent of the currency in circulation."*

The simple fact is; governments (in this case, that of France) can be relied upon to ~~lie~~ ~~cheat~~ obfuscate because they have the power and the motive to do so and, as you can see from the passage above, even the biggest cannot be trusted. But, perhaps more than the actual chicanery itself way back in 1924, it was the reaction to the uncovering of the deception that proves most illustrative when comparing it to the actions of the 'emperors' of today:

> *...The doctored accounts were first discovered in October 1924 by the Banque's deputy governor, who promptly informed Governor Robineau; the minister of finance, Étienne Clémentel; and the prime minister, Édouard Herriot. Although the governor kept pressing*

> *the government to correct the situation by repaying the Banque some of what it owed, the ministers vacillated and did nothing for six months, hoping against hope that public finances might turn around."*

Vacillation? Hoping against hope? Sound familiar?

The plays we have seen being used by the world's politicians and Central Banks for the last four years—like the policy tools being used in their implementation—are as old as Central Banking itself and their results are as certain now as they were back then—only this time the outcome is almost certain to be of a magnitude far greater if for no other reason than the sheer quantum of the increase in debt and the size and number of countries that are caught in the ongoing spiral of debt deterioration.

But enough of Greece for the moment (if only), and its €212bln GDP and 11 million citizens and let's move on to Spain; 46 million people generating €1.1 trillion in GDP.

For over a year now we have constantly been told that Spain was 'too big to save' and that, if it were to be dragged kicking and screaming into the crosshairs of the crisis, it would mean 'the end'. Well, as has been inevitable for over a year now, Spain has been well and truly dragged front and centre and it looks for all the world as though 'the end' has arrived; at least, 'the end' of the euro as we know it—though it appears that it has only been in the last few months that the scales have begun to fall from the eyes of those watching the passing parade.

> **"...The recent Spanish bank 'bailout' will, I suspect, prove to be a significant turning point in the eurozone crisis..."**

The recent Spanish bank 'bailout' will, I suspect, prove to be a significant turning point in the eurozone crisis and the reason for this is that it demonstrated beyond any argument just how fast the central banks are losing control of the situation.

A look at the timeline of recent events in Spain demonstrates this perfectly:

> *May 7: Rodrigo Rato quits as chairman of Spain's ailing fourth biggest lender Bankia, paving way for its rescue*
>
> *May 10: Spain effectively nationalizes Bankia*
>
> *May 23: Finance Minister De Guindos says Bankia needs at least 9 billion euros ($11.32 billion). PM Mariano Rajoy insists Spain can sort out the problem.*
>
> *May 25: Bankia says it actually needs 19 billion euros*
>
> *May 29: Spanish official tells Reuters "another plan" in works now that direct bank bailout seems unlikely*
>
> *June 2: In keynote speech, Rajoy calls for EU fiscal union, a sign of commitment to budgetary rigor that Germany is seeking*
>
> *June 4: Merkel spends evening discussing details of package for Spanish banks with EU Commission chief Jose Manuel Barroso*
>
> *June 6: Intensive telephone negotiations, with Spain still hoping for the least possible government obligation on any loan to help plug hole in the balance sheets of its banks*
>
> *June 7: Euro zone ministers hold secret teleconference*
>
> *June 8: Sources tell Reuters that Spain will request loan from EU's bank support program at teleconference the next day. Rajoy's deputy insists there can be no deal until "at least preliminary" audit report in on banks. IMF delivers figures, citing at least 40 billion euros required, late on Friday*
>
> *June 9: Officials hammer out details in morning conference call. At a second call among finance ministers, starting around 4 p.m., de Guindos finally asks for and accepts 100 billion euros for Spain's banks.*
>
> *June 10 - Rajoy appears at news conference to insist it is not a "rescue" and deny coward-*

ice in letting de Guindos make the announcement. Then flies to Poland to watch Spain play soccer.

So, in the space of a little over a month, not only did we see the hole in Bankia's balance sheet grow from €9bln to €19bln in TWO DAYS, but we saw an 'unlikely' bank bailout become reality and a €40bln shortfall become a €100bln request *OVERNIGHT*.

Just about the only consistency in the entire process was the fact that this was NOT a bailout.....

Remember the good old days when a bank would take months to go from "No squeeze" to "Dough, please?" and when a country would take a couple of years to make the transition from "Warm and sunny!" to "Bailout money?"

Those days? Gone.

Remember when, in 1998, Long Term Capital Management nearly brought the world to its knees for a mere $? Fourteen years later, the effects of throwing $125 billion at a few Spanish banks evaporated in a matter of hours. Poof!

As is inevitable when something begins to go downhill, it picks up speed and the crisis in Europe is going downhill FAST—picking up speed with each passing day. The law of diminishing returns is now clearly evident—at least to those willing to ignore the pronouncements of the Emperors and look for themselves—and the endgame is here.

> "Picasso once described art as "a lie that makes us realize truth." The same might be said about the art of European policy-making at the moment."

The cries from the crowd about the sartorial splendour of Europe's emperors are growing louder—a fact evidenced by the complete lack of positive commentary from even the mainstream media once the Spanish bank bailout was 'leaked' over the weekend before its official announcement on Monday. Trawling through literally dozens of different sources in search of commentary yielded nothing but negativity:

(UK Daily Telegraph): Another day, another sticking plaster solution from beleaguered eurozone policymakers.

Only this one may not even succeed in buying time – I give it less than a month before some such other piece of bad news comes along to fire the crisis anew. Like all the others, the latest fix seems to create as many problems as it solves.

Less than a month? That would have been nice.

(NY Times): It was not enough. And it may never be enough.

The euro zone's offer of $125 billion to bail out Spanish banks over the weekend was hailed by finance ministers and officials across Europe as a masterstroke. Germany's finance minister, Wolfgang Schäuble, suggested no further bailouts would be needed, saying, "Spain is on the right track."... the bailout could make things in Spain worse, not better. And market indicators for the next domino in line for a bailout, Italy, point in the wrong direction.

This was bound to happen. That's because bailing out the banks in each European country individually is a fool's errand.

Amazingly enough, even Cheerleader-in-Chief, CNBC struggled to colour the information with its usual rose-tinted hue:

(CNBC): Picasso once described art as "a lie that makes us realize truth." The same might be said about the art of European policy-making at the moment.

European officials shouldn't be surprised if their latest unveiling—a rescue plan for Spain's troubled banks—fails yet again to impress markets or resolve the continent's crisis. After all, whatever the package of up to €100 billion in loans might do to calm fears about Spain's banks for the time being, it may only increase concerns about the health of the sovereign itself.

So what now for Europe? Well unless they cobble together a set of real robes that dazzle the eyes of all those who behold them, they are going to be left wandering around naked, wearing the kind of dazed expression normally reserved for members of my generation who encounter the words 'celebrity' and 'Kardashian' in the same sentence.

As for what those robes will need to be made of, well, it's nice and simple. Forget mink, ermine, Egyptian cotton and silk. No. These magnificent robes will need to be made of paper—trillions of euros worth of paper. Period. At this point, making them out of anything else will simply not work.

The problem is that, as the effect of one euro of arbitrary monetary stimulus contracts, the length of time taken to reach any kind of consensus amongst Europe's emperors expands because the positioning has begun for the aftermath of the euro era.

"European policymakers don't have the leeway for any more missteps"

The last week has seen a desperate procession of stories about German Chancellor Angela Merkel softening her stance on eurobonds and collective responsibility for European debts and yet more speculation that the ESM will ride to the rescue—all of which were closely followed by denials—because this is the last arrow in the European quiver. If they DON'T do it, the game is over but in order TO do it, they need a couple of trivial things to happen:

1. The ESM has to be ratified by 14 out of the 17 signatories. For those of you keeping score at home, that's roughly 82% who have yet to pony up—including Germany:

> *(Der Spiegel): Germany's highest court asked the country's president on Thursday to delay ratification of the permanent euro bailout fund, the European Stability Mechanism, and the fiscal pact into law next week. If he complies, the move could delay the implementation of the ESM by several weeks in the latest setback for Chancellor Angela Merkel.*

2. The ESM needs to increase its paid-in capital from the current €16 billion (which makes its maximum lending capacity €107 billion until October) by getting contributors to send money they are basically assured will go straight out of the back door:

> *(Euromoney): In the first few months, the ESM can be supplemented from the remaining European Financial Stability Facility funds of €248 billion, which could be available until June 2013. But the ESM won't have more than €351 billion available before November 2012*
>
> *So, if Spain suddenly needs €350 billion, that would leave the eurozone firewall with just €1 billion to fight contagion everywhere else. European policymakers don't have the leeway for any more missteps.*

How hopeless is the situation? I'll tell you.

The entire world has spent the last month paralyzed—fixating on elections in Greece and the possibility that a victory for Alex Tsipras' left-wing Syriza party would spell the beginning of the end of the euro. A huge sigh of relief was heard on June 17 when Syriza failed to win and the world rejoiced that the New Democracy Party would be forming the next Greek coalition government with PASOK.

Yes folks, the saviours of the euro is a coalition led by the very same party who cooked Greece's books to gain admission into the euro in the first place and supported by the party who has systematically broken just about every promise they have made to Europe since they replaced New Democracy after the fraud was uncovered.

We're SAVED!

I will leave the final word to a gentleman whom, regular readers will know, I count amongst the very finest of observers; someone who, for many years has demonstrated an unsurpassed ability when it comes to explaining, in the most concise way possible, the absurdities of the current situation and who has featured regularly in these pages—Bill Fleckenstein.

Just this week, Bill wrote the following passage for his paid subscribers which he very kindly gave me permission to reproduce here:

(Readers wishing to have regular access to Bill's wisdom can click here to subscribe. I cannot recommend his work highly enough)

> *Even though I have been saying virtually the same thing for 20 years, it still boggles my mind that the people running the Fed can be so amazingly and demonstratively incompetent, yet they are entrusted with unequalled power to change the course of history and people's futures based on their pet theories (and bolstered by ego-boosting reinforcement from the applause meter). Although Bernanke is not the egomaniac that Greenspan was, he has done no less damage. On the other hand, had Greenspan not done what he did, Bernanke probably wouldn't have followed the course that he has.*
>
> *When I wrote my book, "Greenspan's Bubbles," in 2008, I figured that in a few years (and certainly by now) the whole world would have seen what a catastrophe Greenspan and the Fed were, and the tremendous negative influence they have had on the country. But here we are four years, trillions of dollars' worth of damage, and millions of ruined lives later, and people are still unable to see the obvious. It is just incredible that something this evident continues to be unrecognized by so many people the world over.*

I literally couldn't have put it better myself (as I think has been proven in the preceding pages!).

****

Oh, the following news just in:

> ***Uh Oh, Italy Swears It Doesn't Need A Bailout:***
>
> *(Globe & Mail): "Italy even in the future will not need aid from the European Financial Stability Fund," Prime Minister Mario Monti said on German radio today, according to reports.*
>
> *While Italy could have been linked with the concept of an "undisciplined country" at one time, it's now "more disciplined" than many of its neighbours, he said.*

Wow! Such fabulous robes. You look super, Mario!

****

I am still on the road still so you'll just have to dive in and see for yourselves what's in the pages of this week's Things That Make You Go Hmmm.....

I have been putting this together on planes, in airports and at odd hours in various hotel rooms across America and have unfortunately run out of time before I need to be somewhere else so I will leave you to it.

Enjoy the parade.

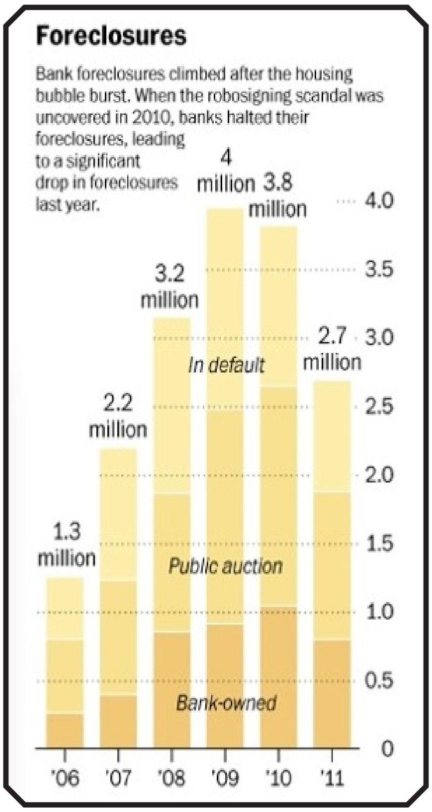
Contents

25 June 2012

Ever since the robo-signing scandal erupted in October 2010, large U.S. banks have slowly come to realize that their practices are under ever-increasing scrutiny. A "Duh!" observation for most people, but not, apparently, for bankers.

Belatedly, the bankers took a closer look at their internal procedures for handling defaulted mortgages. It did not take long for them to discover that something significant was amiss. By mid-2011, most of the major money center banks had put the brakes on their normal foreclosure machinery: "What was all this sturm und drang over some bums who don't pay their bills? Perhaps we better look into it."

Their internal review of how mortgages in default were handled revealed a surprising amount of chicanery. Indeed, most of what was going on had elements of something wrong. The banks might have been better served had they asked the question: "Are we doing anything legally?"



SOURCE: REALTY TRAC/WAPO

As it turned out, not very much.

Large banks had long used outside law firms and third-party service processors to pursue recoveries from debtors. What made this cycle so different was the sheer volume: A massive increase in foreclosures combined with a big upsurge in outside vendors to process them. The combination ran roughshod over centuries of property laws, to say nothing of well-established banking procedures and legal practices.

Using third parties did not protect the banks from liability. As it turns out, subcontracting fraud does not insulate your organization from the illegal behavior of your hires. This created a problem for the banks.

Eventually, some smart executive figured out exactly how rampant the illegal robo-signings had become and halted the runaway foreclosure process. Even though it was temporary, it gave the banks some time to try to clean up their acts. While there was hope of a settlement (as opposed to prosecution), the banks stopped processing defaulted home loans. This voluntary foreclosure abatement continued even as negotiations plodded on with the U.S. attorney general. Thus, with the foreclosure pipeline shut down for well over a year, home prices stabilized and distressed sales fell as a percentage of total home sales.

Ultimately, the attorneys general settlement amounted to a mere slap on the wrist for the banks in light of the institutionalized fraud that occurred.

BARRY RITHOLTZ / **LINK**

At first glance the two story office building tucked away in the town of Nordhausen seems unremarkable. The boxy building north of Erfurt, the capital of the eastern German state of Thuringia, is painted yellow and comes with a parking lot. Though part of the first floor already has a reliable renter, another part suffered fire damage earlier this year. Still, it's in a desirable location.

In a catalog for an auction early this month in central Berlin, the property was listed for €48,000 ($60,355). But by the end of an intense 15-minute bidding war between two remote buyers and a gentleman in the back of the airy atrium, it went for almost double the asking price: €90,000 ($113,166). The top bidder turned out to be an investor from western Germany.

"It is an example of what real estate can fetch when it's good," says Carsten Wohlers of Plettner & Brecht, the property brokerage that ran the auction. About 90 percent of the 53 properties listed were sold, a 10 percent improvement over last year, he says. Organizers also noticed that more buyers called in bids rather than coming in person, though Wohlers attributes that as much to the good weather as the ongoing European Football Championship.

The auction is just one example of how, even as housing market recovery in the United States, Spain and other struggling countries muddles along, Germany's real estate market has taken off. After years of stagnating, German prices for both residential and commercial real estate began rising again in 2009. Buoyed by trouble in other euro crisis countries, German property has become a safe haven for both German and international investors looking for a secure place to store their money.

> **"... even as housing market recovery in the United States, Spain and other struggling countries muddles along, Germany's real estate market has taken off."**

Indeed, German real estate prices rose 3.5 percent between September 2010 and the same month the following year, according to the Organization for Economic Cooperation and Development (OECD). Meanwhile, the average price for homes rose 5.5 percent in 2011, according to the Bundesbank, Germany's central bank. And major German cities such as Berlin, Hamburg and Munich have seen between 10 and 13 percent increases in prices for existing and new apartments, offsetting flat and declining prices in rural parts of the country.

Though these price increases sound impressive, they hardly indicate a dreaded housing bubble. By comparison, during the first quarter of 2005, as prices approached their peak ahead of the US housing crisis, they rose 12.5 percent over the previous year, with costs for homes in places like California, Nevada and Florida going up some 20 percent a year. Still, the price increases in Germany have the Bundesbank worried enough that it said recently it was monitoring the situation to keep it from getting out of hand.

But the real estate situation in Germany "is not comparable with the US and Spain," says Steffen Sebastian, chair of real estate finance at the University of Regensburg, in the southern German state of Bavaria. Today's real estate price increases are also nothing like Germany's real estate bubble in the mid-1990's, when Helmut Kohl's government provided tax breaks to support post-reunification investment in the former East German property market. Those tax benefits have since been halved.

Sebastian says that German real estate heated up about a year and a half ago, but that the difference between what happened in other countries hit by a housing crisis is that individuals, and not investment banks, are putting their own money into real estate. And they aren't just Germans, but people from across the Continent. "Much of the demand is from speculation across Europe," says Sebastian.

★ ★ ★ *DER SPIEGEL* / **LINK**

Illness means both Greece's new prime minister and finance minister will miss an anxiously awaited summit of European leaders later this week and delayed a visit by the country's international lenders.

The news was a blow to Athens' attempts to ease the terms of its bailout in the teeth of German opposition, as well as an untimely complication for a summit that some hoped would take new steps to grapple with the region's debt crisis.

According to a document prepared for the June 28-29 meeting, European leaders will discuss specific steps towards a cross-border banking union, closer fiscal integration and the possibility of a debt redemption fund.

But Prime Minister Antonis Samaras underwent eye surgery on Saturday and Vassilis Rapanos is in hospital after suffering from nausea before he could be sworn in as finance minister.

Instead, Greece's foreign minister and outgoing finance minister will attend the meeting to ask for the terms of the 130 billion euro ($162.96 billion) bailout to be loosened.

The unexpected turn of events forced the postponement of a visit to Athens on Monday by officials from Greece's "troika" of lenders - the European Union, European Central Bank and International Monetary Fund.

Athens faces a stern test at the two-day EU summit, with euro zone paymaster Germany particularly resistant to giving Athens any leeway.

German Finance Minister Wolfgang Schaeuble made his country's position all too clear in a bluntly worded interview on Sunday, telling Greece to stop asking for more help and instead move quickly to enact reform measures already agreed.

"The most important task facing new prime minister Samaras is to enact the programme agreed upon quickly and without further delay instead of asking how much more others can do for Greece," Schaeuble, a close ally of Chancellor Angela Merkel, told Bild am Sonntag.

His comments came as the paper carried a poll of 4,000 people showing 78 percent of Germans and 65 percent of French people wanted Greece to leave the euro zone, with 51 percent in Spain and 49 percent in Italy also backing a Greek exit.

YAHOO / **LINK**

Someday, it will go down in history as the first trial of the modern American mafia. Of course, you won't hear the recent financial corruption case, United States of America v. Carollo, Goldberg and Grimm, called anything like that. If you heard about it at all, you're probably either in the municipal bond business or married to an antitrust lawyer. Even then, all you probably heard was that a threesome of bit players on Wall Street got convicted of obscure antitrust violations in one of the most inscrutable, jargon-packed legal snoozefests since the government's massive case against Microsoft in the Nineties – not exactly the thrilling courtroom drama offered by the famed trials of old-school mobsters like Al Capone or Anthony "Tony Ducks" Corallo.

> "... stripped of all the camouflaging financial verbiage, the crimes the defendants and their co-conspirators committed were virtually indistinguishable from the kind of thuggery practiced for decades by the Mafia"

But this just-completed trial in downtown New York against three faceless financial executives really was historic. Over 10 years in the making, the case allowed federal prosecutors to make public for the first time the astonishing inner workings of the reigning American crime syndicate, which now operates not out of Little Italy and Las Vegas, but out of Wall Street.

The defendants in the case – Dominick Carollo, Steven Goldberg and Peter Grimm – worked for GE Capital, the finance arm of General Electric. Along with virtually every major bank and finance company on Wall Street – not just GE, but J.P. Morgan Chase, Bank of America, UBS, Lehman Brothers, Bear Stearns, Wachovia and more – these three Wall Street wiseguys spent the past decade taking part in a breathtakingly broad scheme to skim billions of dollars from the coffers of cities and small towns across America. The banks achieved this gigantic rip-off by secretly colluding to rig the public bids on municipal bonds, a business worth $3.7 trillion. By conspiring to lower the interest rates that towns earn on these investments, the banks systematically stole from schools, hospitals, libraries and nursing homes – from "virtually every state, district and territory in the United States," according to one settlement. And they did it so cleverly that the victims never even knew they were being cheated. No thumbs were broken, and nobody ended up in a landfill in New Jersey, but money disappeared, lots and lots of it, and its manner of disappearance had a familiar name: organized crime.

In fact, stripped of all the camouflaging financial verbiage, the crimes the defendants and their co-conspirators committed were virtually indistinguishable from the kind of thuggery practiced for decades by the Mafia, which has long made manipulation of public bids for things like garbage collection and construction contracts a cornerstone of its business. What's more, in the manner of old mob trials, Wall Street's secret machinations were revealed during the Carollo trial through crackling wiretap recordings and the lurid testimony of cooperating witnesses, who came into court with bowed heads, pointing fingers at their accomplices. The new-age gangsters even invented an elaborate code to hide their crimes. Like Elizabethan highway robbers who spoke in thieves' cant, or Italian mobsters who talked about "getting a button man to clip the capo," on tape after tape these Wall Street crooks coughed up phrases like "pull a nickel out" or "get to the right level" or "you're hanging out there" – all code words used to manipulate the interest rates on municipal bonds. The only thing that made this trial different from a typical mob trial was the scale of the crime.

USA v. Carollo involved classic cartel activity: not just one corrupt bank, but many, all acting in careful concert against the public interest. In the years since the economic crash of 2008, we've seen numerous hints that such orchestrated corruption exists. The collapses of Bear Stearns and Lehman Brothers, for instance, both pointed to coordinated attacks by powerful banks and hedge funds determined to speed the demise of those firms. In the bankruptcy of Jefferson County, Alabama, we learned that Goldman Sachs accepted a $3 million bribe from J.P. Morgan Chase to permit Chase to serve as the sole provider of toxic swap deals to the rubes running metropolitan Birmingham – "an open-and-shut case of anti-competitive behavior," as one former regulator described it.

"... Everyone understands that the authorities sometimes lie in order to promote calm in the markets, but it was unexpected to hear such a high-level official actually admit to doing so. They're not supposed to admit that they lie"

More recently, a major international investigation has been launched into the manipulation of Libor, the interbank lending index that is used to calculate global interest rates for products worth more than $3 trillion a year. If and when that case is presented to the public at trial – there are several major civil suits in the works here in the States – we may yet find out that the world's most powerful banks have, for years, been fixing the prices of almost every adjustable-rate vehicle on earth, from mortgages and credit cards to interest-rate swaps and even currencies.

But USA v. Carollo marks the first time we actually got incontrovertible evidence that Wall Street has moved into this cartel-type brand of criminality. It also offered a disgusting glimpse into the enabling and grossly cynical role played by politicians, who took Super Bowl tickets and bribe-stuffed envelopes to look the other way while gangsters raided the public kitty. And though the punishments that were ultimately handed down in the trial – minor convictions of three bit players – felt deeply unsatisfying, it was still a watershed moment in the ongoing story of America's gradual awakening to the realities of financial corruption. In a post-crash era where Wall Street trials almost never make it into court, and even the harshest settlements end with the evidence buried by the government and the offending banks permitted to escape with no admission of wrongdoing, this case finally dragged the whole ugly truth of American finance out into the open – and it was a hell of a show.

MATT TAIBBI / **LINK**

Speaking at a Brussels conference back in April 2011, Eurogroup President Jean Claude Juncker notably stated during a panel discussion that "when it becomes serious, you have to lie." He was referring to situations where the act of "pre-indicating" decisions on eurozone policy could fuel speculation that could harm the markets and undermine their policies' effectiveness. Everyone understands that the authorities sometimes lie in order to promote calm in the markets, but it was unexpected to hear such a high-level official actually admit to doing so. They're not supposed to admit that they lie. It is also somewhat disconcerting given the fact that virtually every economic event we have lived through since that time can very easily be described as "serious". Bank runs in Spain and

Greece are indeed "serious", as is the weak economic data now emanating from Europe, the US and China. Should we assume that the authorities have been lying more frequently than usual over the past year?

When former Fed Chairman Alan Greenspan denied and down-played the US housing bubble back in 2004 and 2005, the market didn't realize how wrong he was until the bubble burst in 2007-2008. The same applies to the current Fed Chairman, Ben Bernanke, when he famously told US Congress in March of 2007 that "At this juncture... the impact on the broader economy and financial markets of the problems in the subprime markets seems likely to be contained."2 They weren't necessarily lying, per se, they just underestimated the seriousness of the problem. At this point in the crisis, however, we are hard pressed to believe anything uttered by a central planner or financial authority figure. How many times have we heard that the eurozone crisis has been solved? And how many times have we heard officials flat out lie while the roof is burning over their heads?

> **"... The parties that have run Italy (ineptly, if colourfully) for the past 20 years were shamed in the eyes of the public by the sober, pragmatic approach of Mr Monti"**

Back in March, following the successful €530 billion launch of LTRO II, European Central Bank President Mario Draghi assured Germany's Bild Newspaper that "The worst is over... the situation is stabilizing."3 The situation certainly did stabilize... for about a month. And then the bank runs started up again and sovereign bond yields spiked. Draghi has since treaded the awkward plank of promoting calm while slipping out enough bad news to ensure the eurocrats stay on their toes. As ING economist Carsten Brzeski aptly described at an ECB press conference in early June, "Listening to the ECB's macroeconomic assessment was a bit like listening to whistles in the dark... It looks as if they are becoming increasingly worried, but do not want to show it."4 And the situation has now deteriorated to the point where Draghi can't possibly show it. Although Draghi does now warn of "serious downside risks" in the eurozone, he maintains that they are, in his words, "mostly to do with heightened uncertainty".5 Of course they are, Mario. Europe's issues are simply due to a vague feeling of unease felt among the EU populace. They have nothing to do with fact that the EU banking system is on the verge of collapsing in on itself.

ERIC SPROTT & DAVID BAKER / **LINK**

An almost visible shudder ran through the Italian media on June 19th when official figures showed house sales in the first three months of 2012 falling at an annual rate of 20%. Building lobbyists denied that Italy might see the popping of a property bubble like the one in Spain. Yet Nomisma, a Bologna-based research institute, says there are 700,000 unsold properties in Italy. Although sales have plunged since 2008, prices have remained steady, a mismatch suggesting that Italians' wealth—and their banks' mortgage collateral—may not be as great as was thought.

The solidity of its banks is still the best argument for putting Italy in a different risk category to Spain. The markets have largely accepted this distinction. The gap between Spanish and Italian government bond yields widened after Italy once again came to be seen as the safer of the two countries in March. This week it hit 1.2 percentage points but then narrowed sharply. Yet the return demanded by investors for buying Italian debt has been rising steadily, reflecting unease about the country's future as well as about the euro itself.

One fear is political. Since Mario Monti came to office last November at the head of a non-party, technocratic government, it has become ever harder to predict the outcome of the election due next spring. The parties that have run Italy (ineptly, if colourfully) for the past 20 years were shamed in the eyes of the public by the sober, pragmatic approach of Mr Monti and his team. Support for mainstream parties, particularly Silvio Berlusconi's People of Freedom movement, has crumbled. This week Mr Berlusconi said this was because of his party's support for Mr Monti's austerity measures—suggesting it might reconsider its position.

Mr Monti was put in office to introduce unpalatable measures that would eliminate the budget deficit. As they have taken effect, his popularity has nosedived. Several polls now suggest that the most popular option among voters after the centre-left Democratic Party is the Five Star Movement, led by a comedian and blogger, Beppe Grillo. Few of its candidates have any experience of government, even at municipal level.

> "... The only hope is for the borrowers to return to prosperity. But how?"

The second worry is that the problems of the Italian economy are so deep-rooted that not even the redoubtable Mr Monti can get it moving again, after more than a decade of virtual stagnation. Without growth, Italy will be unable to repay its still-rising public-debt mountain of almost €2 trillion. Its handicaps include corruption, moribund universities, organised crime, socially approved protectionism and a deeply ingrained hostility to competition (when a private rail operator, NTV, launched a new service from Rome's Ostiense station last week, passengers found their path to the trains blocked by a fence put there by a subsidiary of NTV's state-owned competitor).

ECONOMIST / **LINK**

Once again, it is likely to disappoint. The main issue is well-known; bail-outs for indigent, non-tax-paying southerners at the expense of hard-working northerners.

The form book tells us that even if they come up with something, the proffered solution will be too little, too late.

But the real issue goes deeper. All the bailout mechanisms under the sun cannot make the euro-zone work. Such bailouts are still, in the end, loans. Even if the interest rates are set very low, interest is due to be paid and the debt eventually to be repaid.

What would make some difference is if the money provided were not some sort of loan but rather an outright gift. Such gifts can be made in advance (although they rarely are) or after the event, when they are called write-offs. Sometimes a recipient itself turns what was once a loan into a gift.

This is called a default. But northern countries understandably don't want their past loans turned into gifts, and they don't want to be forced to make new gifts until the crack of doom.

Yet even continued gifts under some sort of fiscal union would not bring prosperity, as we see clearly in Italy. Italian unification in 1861 married the Germanic north with the Latin south. The consequent misalignment continues to this day. If the euro holds together, this would leave the southern peripheral countries as a giant version of the Mezzogiorno.

The currently popular solution is euro bonds. This is fiscal union-lite. Northern countries would effectively share the burden of the south's debt. Without controls on the south's spending and borrowing, however, this would be an invitation for southerners to go on spending at the north's expense – or for everyone to go on spending in the belief that they will only pick up a fraction of the bill.

It would be a bit like one of those dinners when twenty people agree to share the bill equally. There is an incentive for everyone to order expensive digestifs.

How could the northerners' objective of getting their money back – and not having to keep doling out more of it - be met? The only hope is for the borrowers to return to prosperity. But how?

Their costs are 30-40pc out of line with Germany's. It is a fantasy to believe that such a gap can be closed by "reform". Whereas money values can move up with dazzling speed, the real economy can be improved only slowly.

Consequently, when nominal values get out of line, the problem can only be solved by a price or exchange rate adjustment. Theoretically, this could be through internal deflation but that would increase the real value of debt and depress aggregate demand still more. Deflation is the road to catastrophe.

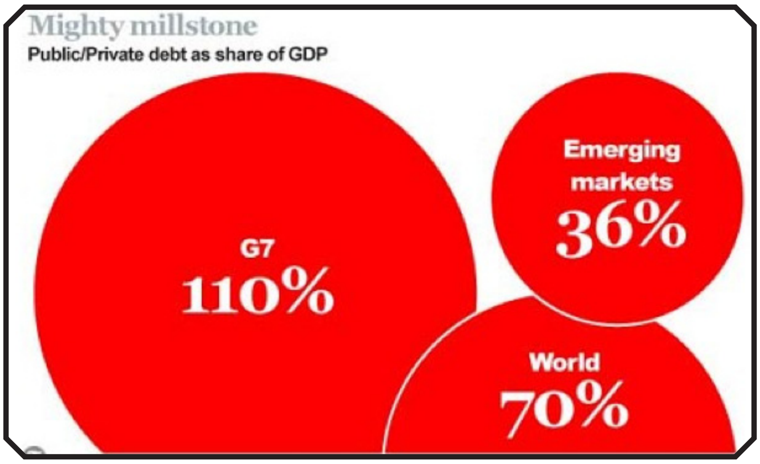
As some of the founders of the euro-zone recognised, if you are going to set up a monetary union, you need to stop nominal values getting out of line. That is why they placed such emphasis on achieving convergence before the union began, and on financial restraint afterwards in the shape of the Stability and Growth Pact. But they botched it. Countries were let in which were manifestly not converged, and the Stability and Growth Pact was both deeply flawed and not enforced.

Throwing yet more money at the vulnerable countries and calling this by a fancy name is not an answer. Just as with the Gold Standard and with Bretton Woods, the system has to break.

★ ★ ★ *ROGER BOOTLE* / **LINK**

‘These global economic problems have their roots in the fools’ paradise we all used to live in,” observed Lord Peter Mandelson on Friday, to a packed seminar at the St Petersburg International Economic Forum.

“Pretty much everyone borrowed and spent beyond their means and that’s now catching up with us,” continued the former Cabinet Minister. “And it’s the inter-twining of the sovereign debt and banking crises that makes any eurozone resolution extremely difficult.”



SOURCE: UK DAILY TELEGRAPH

On this point, Lord Mandelson is correct. Years of extreme lending and reckless trading by Western banks brought serious sector weakness. The disgracefully cosy relationship between our political and financial classes and the even more disgraceful use of banking blackmail, has meant, in Lord Mandelson’s words, that massive banks losses “have, in one way or another, landed on sovereign balance sheets”.

Such is the reality that plagues the eurozone, with toxic bank liabilities raising deep concerns about sovereign insolvency and the resulting sky-high bond yields destroying commercial sentiment and throttling growth, making dodgy banks weaker still. This bank-sovereign-bank “doom loop” has brought Western Europe back to the brink of recession, with related systemic fears casting a very dark shadow over the entire global economy.

If only Angela Merkel would agree a big bail-out, we’re told, everything will be fine. The German Chancellor retorts that the only way Berlin could possibly agree to back-stop debts of more profligate eurozone members would be if Germany has more control over the spending of other governments.

On Friday, the latest round of this tortured debate took place in Rome, where Merkel met her French, Italian and Spanish counterparts. The world’s most powerful woman once again dismissed calls for the eurozone to issue common debt and spray more cash around to stabilise financial markets.

Just ahead of tomorrow’s implementation of a €100bn (£80.6bn) bail-out of Spain’s busted banks, Merkel closed this disastrous Rome meeting by crystallized her dilemma. “If I give money to Spanish banks, I’m the German Chancellor but I can’t say what these banks can do,” she said.

That’s why Germany insists these latest bail-out funds are channelled through the Spanish government, which Berlin theoretically can influence. But that adds yet more billions to Spain’s state debts, intensifying the bank-sovereign-bank doom loop. Investors also fear bail-out loans will subjugate existing private sector creditors – another reason why, since this bail-out was announced two weeks ago, Spanish yields have spiked.

Yet domestic political pressures mean Merkel can't pay the cash directly to foreign banks – a move that would make a mockery of existing Europe treaties, to say nothing of Germany's constitution.

LIAM HALLIGAN / **LINK**

"The consumption tax doesn't have a snowball's chance in hell of being passed." So wrote one (usually astute) American economist in December, banking on what has been one of the canons of Japanese politics for the past decade and a half—that few politicians are either brave or reckless enough to risk raising Japan's most contentious tax.

"... The [consumption] tax increase in 1997 seemed to mark a peak in the economy. Since then Japan's nominal GDP has shrunk by a tenth"

Surprisingly, to the relief of some and chagrin of others, on June 15th prime minister Yoshihiko Noda's Democratic Party of Japan (DPJ), though at war with itself, agreed with the main opposition parties to raise the sales tax from 5% to 8% in April 2014, and to 10% in October 2015. The only (ill-defined) proviso is that the economy is strong enough to withstand the increase.

A fiscal-reform bill was expected to clear the lower house of the Diet (parliament) after The Economist went to press, paving the way for its passage in the upper house this summer. If it is enacted, not only will it break a taboo of Japanese politics. It will also deepen the debate in Japan, as elsewhere, about the merits of austerity versus growth.

Politically, the tax rise is certainly daring. When the consumption tax was introduced in 1989 at 3%, and raised in 1997 to 5%, the moves undermined the popularity of the governments of the day. So contentious is the issue still that Mr Noda may feel he has to dissolve the Diet soon after passing the consumption-tax legislation. Either way, he may also face a leadership challenge from within the DPJ in September.

What makes the tax especially contentious are its disputed economic consequences. As far as ordinary people are concerned, history provides ample reason to shudder at the prospect of a higher consumption tax. Its introduction in 1989 coincided with the peak of Japan's stockmarket and property bubbles. The tax increase in 1997 seemed to mark a peak in the economy. Since then Japan's nominal GDP has shrunk by a tenth. Such a fall (exacerbated by deflation) has hit tax receipts, which have fallen by 22% since 1997, leading to a doubling of the government's debt.

At a time of stagnant wage growth, few consumers will relish the prospect of paying up to 5% more for everything they buy. However, at its current 5%, the consumption tax is the lowest in the rich world's sizeable economies, which has bred a sense in Japan that raising the tax was inevitable sooner or later. Even at 10%, it will be at half Europe's levels—and getting there may boost growth in the short term, by bringing spending forward.

ECONOMIST / **LINK**

Eighty years ago central bankers were responsible for sending the global economy into the Great Depression. They failed to ease monetary policy fast enough. Indeed, because of the dictates of the gold standard, at various points they moved in the opposite direction and were forced to raise interest rates despite mass unemployment. And instead of acting as lender of last resort to the financial system, they stood by as across the world one bank after another failed.

When Lehman Brothers collapsed in 2008, it seemed as if the world's major central bankers had taken on board the lessons of the 1930s and would do everything they could to avoid replicating their mistakes. But during the past few months, as the crisis in Europe has spiralled out of control and the global economy has started to weaken, I have begun to fear that the world might in fact be repeating some of those same errors.

Much has changed in the world of central banking since the 1930s. At that time most central banks were privately held institutions, jealously guarding their autonomy from government. They had quirky ways of conducting their affairs. The Bank of England, for example, was run by a board of 26 directors – known as the "Court" – drawn from a closed, almost hereditary circle of City of London bankers and merchants.

The result was that the men at the helm of central banks came from insular oligarchies. Few of them thought it necessary to know anything about economics. Montagu Norman, governor of the BoE from 1920 to 1944, is reputed to have once told his chief economist: "Your job is not to tell me what to do, but to tell me why I did it." When asked before a parliamentary committee what his reasons were for a particular policy, he simply tapped the side of his nose three times and said: "Reasons, Mr Chairman? I don't have reasons. I have instincts."

> **"... what really keeps this generation of central bankers up at night is not whether the unconventional monetary tools that they are contemplating will work. It is that some of the same intractable factors that their predecessors of the 1930s had to contend with will overwhelm them once again"**

The contrast with the men in charge of central banks today is stark. US Federal Reserve chairman Ben Bernanke, European Central Bank president Mario Draghi and BoE governor Mervyn King all have doctorates in economics. But as they experiment with unconventional monetary tools to get the global economy moving, ironically they may find their years of training less useful than their instincts.

Nevertheless, what really keeps this generation of central bankers up at night is not whether the unconventional monetary tools that they are contemplating will work. It is that some of the same intractable factors that their predecessors of the 1930s had to contend with will overwhelm them once again.

The first has to do with the international dimension of the crisis. The situation in Europe today bears an eerie similarity to that of Europe in the 1930s. Ironically, Germany was then in the position of the peripheral European countries today. It was weighed down with government debt because of reparations imposed at Versailles; its banking system was severely undercapitalised, the result of the hyperinflation of the early 1920s; and it had become dependent on foreign borrowing. It was locked into a rigid fixed exchange rate system, the gold standard, which it dared not tamper with for fear of provoking a gigantic crisis of confidence. And so when the Depression hit and international capital markets essentially closed down, Germany had no choice but to impose brutal austerity. Eventually, unemployment rose to 35 per cent.

Like today, in the 1930s there was one major economy in Europe doing well. It was France. While the rest of Europe was suffering, unemployment in France, as in Germany today, was in the low single figures. And France, again like Germany today, had large current-account surpluses and was in a financial position to act as the locomotive for the rest of Europe. But the French authorities of the 1930s, refusing to accept responsibility for what was happening elsewhere in Europe, would not adopt expansionary policies. Nor would they lend directly to Germany, fearing that they would be throwing good money after bad. The effect of French policy eventually brought down the whole financial system of western Europe.

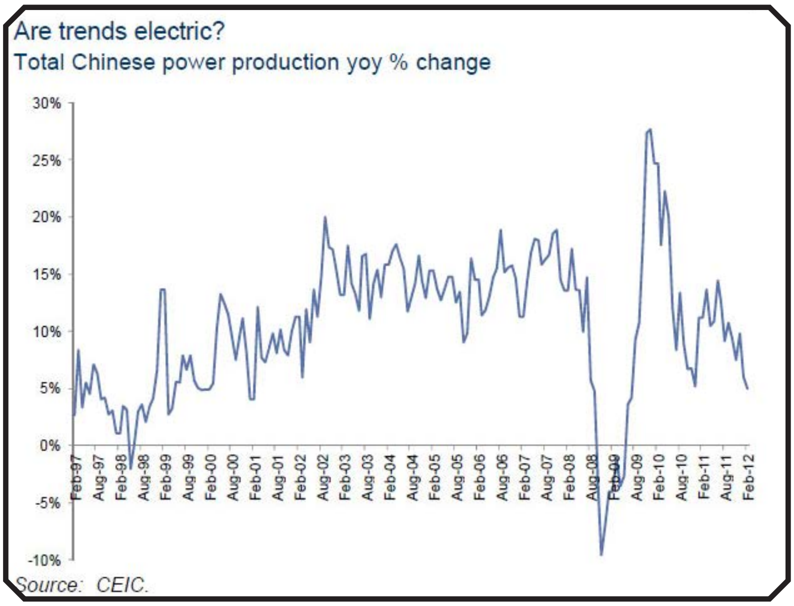
★ ★ ★ *LIAQUAT AHAMED* / **LINK**

As the Chinese economy continues to sputter, prominent corporate executives in China and Western economists say there is evidence that local and provincial officials are falsifying economic statistics to disguise the true depth of the troubles.

Record-setting mountains of excess coal have accumulated at the country's biggest storage areas because power plants are burning less coal in the face of tumbling electricity demand. But local and provincial government officials have forced plant managers not to report to Beijing the full extent of the slowdown, power sector executives said.

Electricity production and consumption have been considered a telltale sign of a wide variety of economic activity. They are widely viewed by foreign investors and even some Chinese officials as the gold standard for measuring what is really happening in the country's economy, because the gathering and reporting of data in China is not considered as reliable as it is in many countries.

Indeed, officials in some cities and provinces are also overstating economic output, corporate revenue, corporate profits and tax receipts, the corporate executives and economists said. The officials do so by urging businesses to keep separate sets of books, showing improving business results and tax payments that do not exist.



CLICK TO ENLARGE **SOURCE: CEIC/ZEROHEDGE**

The executives and economists roughly estimated that the effect of the inaccurate statistics was to falsely inflate a variety of economic indicators by 1 or 2 percentage points. That may be enough to make very bad economic news look merely bad. The executives and economists requested anonymity for fear of jeopardizing their relationship with the Chinese authorities, on whom they depend for data and business deals.

The National Bureau of Statistics, the government agency in Beijing that compiles most of the country's economic statistics, denied that economic data had been overstated."This is not rooted in evidence," an agency spokeswoman said.

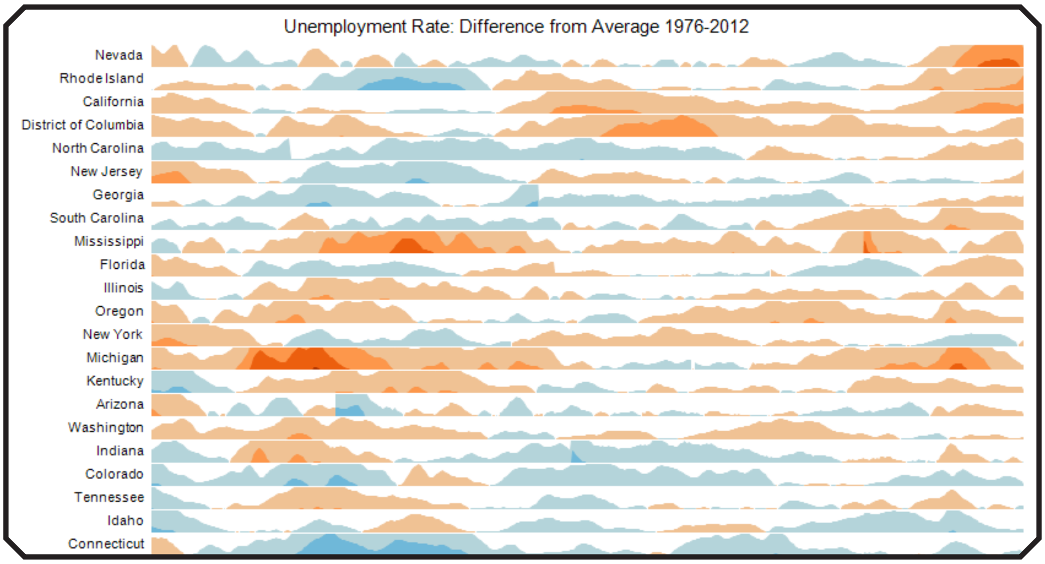
Some still express confidence in the official statistics. Mark Mobius, the executive chairman of Templeton Emerging Markets Group, cited the reported electricity figures when he expressed skepticism that the Chinese economy had real difficulties. "I don't think the economic activity is that bad — just look at the electricity production," he said.

But an economist with ties to the agency said that officials had begun making inquiries after detecting signs that electricity numbers may have been overstated.

Questions about the quality and accuracy of Chinese economic data are longstanding, but the concerns now being raised are unusual. This year is the first time since 1989 that a sharp economic slowdown has coincided with the once-a-decade changeover in the country's top leadership.

Officials at all levels of government are under pressure to report good economic results to Beijing as they wait for promotions, demotions and transfers to cascade down from Beijing. So narrower and seemingly more obscure measures of economic activity are being falsified, according to the executives and economists.

★ ★ ★ *NYT (VIA ZEROHEDGE)* / **LINK**



CLICK TO ENLARGE

SOURCE: TABLEAU

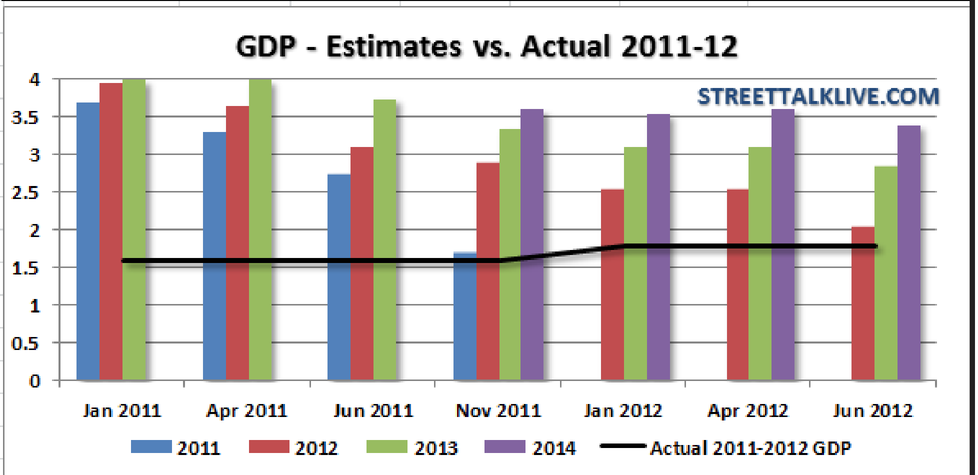
A look at where the various States are in terms of their long-term average is extremely interesting.

North Dakota is booming, people. BOOMING!

When it comes to the economy the Fed has consistently overstated economic strength. Take a look at the chart and table. In January of 2011 the Fed was predicting GDP growth for 2011 at 3.7%. Actual real GDP (inflation adjusted) was 1.6%, or a negative 56% difference. The estimate at that time for 2012 was almost 4% versus 1.8% currently.

FOMC Economic Projections (Avg. Of Range)

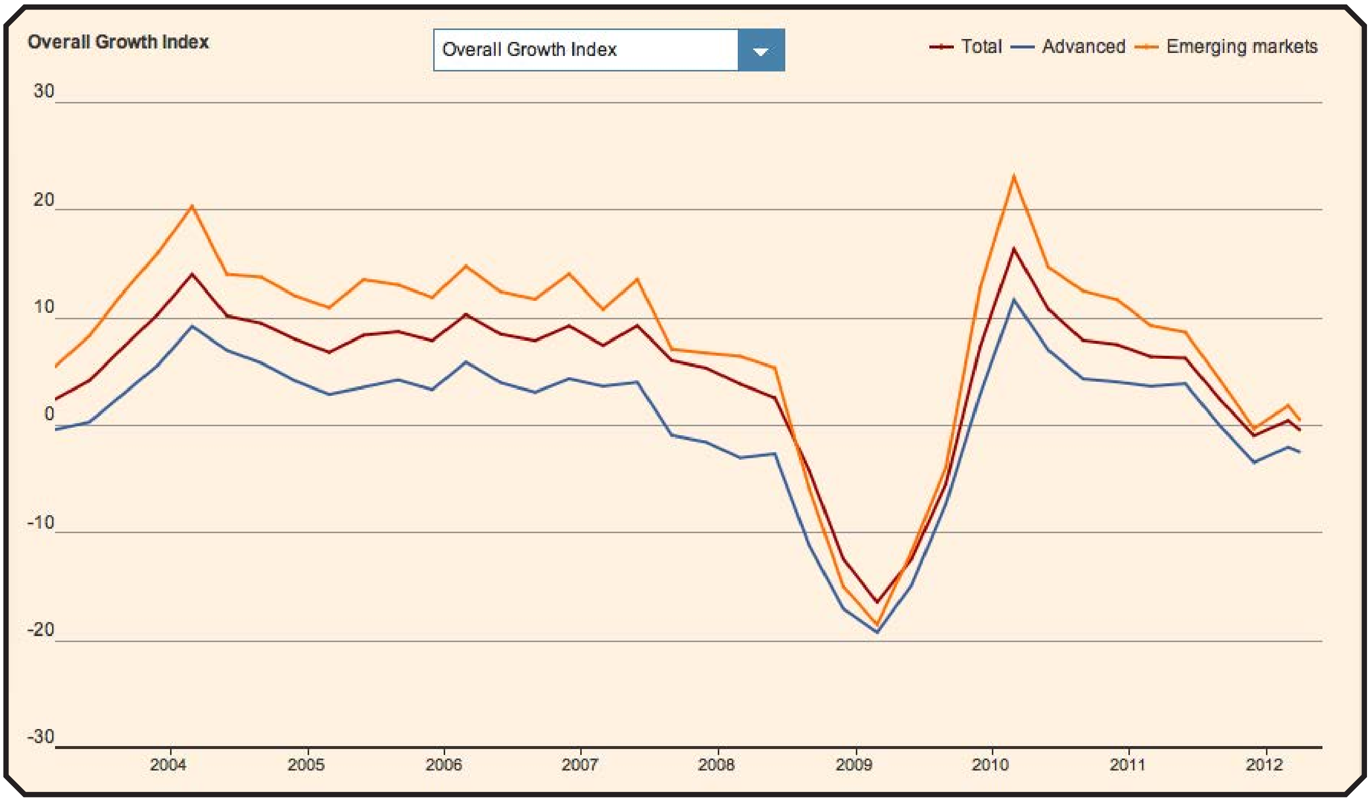
Meeting Date	2011	2012	2013	2014	Long Run	Actual 2011-2012 GDP
Jan 2011	3.7	3.95	4		2.7	1.6
Apr 2011	3.3	3.65	4		2.7	1.6
Jun 2011	2.75	3.1	3.75		2.7	1.6
Nov 2011	1.7	2.9	3.35	3.6	2.6	1.6
Jan 2012		2.55	3.1	3.55	2.6	1.8
Apr 2012		2.55	3.1	3.6	2.6	1.8
Jun 2012		2.05	2.85	3.4	2.6	1.8



SOURCE: LANCE ROBERTS

We have been stating repeatedly over the last 2 years that we are in for a low-growth economy due to the debt deleveraging, deficits and continued fiscal and monetary policies that are retardants for economic prosperity. The simple fact is that when an economy requires nearly $5 of debt to provide $1 of economic growth, the engine of prosperity is broken.

LANCE ROBERTS / LINK



CLICK TO VIEW INTERACTIVE GRAPHIC

SOURCE: PRASAD/FODA/FT

The global economic recovery is stalling, according to Tracking Indices for the Global Economic Recovery, the Brookings Institution-Financial Times index of the world economy.

Brookings' senior fellow and index creator Eswar Prasad said: "The engines of world growth are running out of steam while the trailing wagons are going off the rails. Emerging market economies are facing sharp slowdowns in growth while many advanced economies slip into recession. "

Covering the Group of 20 economies, the index comprises three types of variable: indicators of real economic activity, such as gross domestic product, imports and exports; financial indicators, such as stock market indices and capitalisation; and confidence indicators, both business and consumer.

These variables combined can deliver a snapshot of the world economy and individual economies and track the economic recovery after the global downturn of 2008-09.

FT / LINK

CLICK TO WATCH

Michael Burry of Scion Capital

gives a tremendous Commencement speech to the students of his Alma Mater, UCLA.

In equal parts illuminating and terrifying.

Following the recent

appearance by Jamie Dimon on Capitol Hill, Bill Moyers talks to Matt Taibbi and Yves Smith of Naked Capitalism about the darker side of the banking system.

CLICK TO WATCH

CLICK TO LISTEN

Farage time.

Nigel discusses impending repression in Europe, this week's summit in Europe, bank insolvency and the smouldering rebellion beginning to cause concern in Italy.

Perhaps unsurprisingly, Farage doesn't see anything of any significance coming out of the summit... Who'da thunk it?

Spain? Well, let's just say that Farage's math tallies with that of Euromoney...

and finally…

The gyrations in Europe are enough to drive anybody to drink, but if you DO need something to take the pain away, you could do a lot worse than ask Ukraine's finest bartender to mix you up a little something.

Tom Cruise; eat your heart out.

(Thanks LS!)

CLICK TO WATCH

Hmmm…

SUBSCRIBE UNSUBSCRIBE COMMENTS

Grant Williams

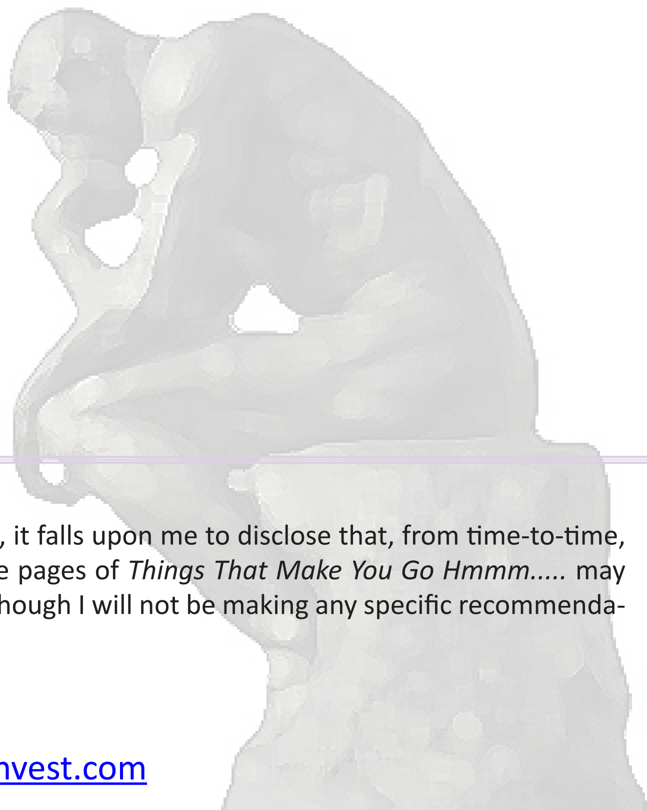
Grant Williams is a portfolio and strategy advisor to Vulpes Investment Management in Singapore - a hedge fund running $200million of largely partners' capital across multiple strategies.

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

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

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

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



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

Grant

www.vulpesinvest.com