

# THINGS THAT MAKE YOU GO *Hmmm...*

A walk around the fringes of finance



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“There’s something happening here  
What it is ain’t exactly clear  
There’s a man with a gun over there  
Telling me I got to beware  
I think it’s time we stop, children, what’s that sound  
Everybody look what’s going down

There’s battle lines being drawn  
Nobody’s right if everybody’s wrong  
Young people speaking their minds  
Getting so much resistance from behind  
I think it’s time we stop, hey, what’s that sound  
Everybody look what’s going down

What a field-day for the heat  
A thousand people in the street  
Singing songs and carrying signs  
Mostly say, hooray for our side  
It’s time we stop, hey, what’s that sound  
Everybody look what’s going down

Paranoia strikes deep  
Into your life it will creep  
It starts when you’re always afraid  
You step out of line, the man come and take you away”

– Something’s Happening Here, *Buffalo Springfield* (Thanks JS)



**T**he Duchy of Grand Fenwick is no more than five miles long and three miles wide and lies in a fold in the Northern Alps. It features three valleys, a river, and a mountain with an elevation of 2,000 feet. On the northern slopes are 400 acres of vineyards. The hillsides where the ground is less fertile support flocks of sheep that provide meat, dairy products and wool. Most of the inhabitants live in the City of Fenwick that is clustered around Fenwick Castle, the seat of government. About 2 miles from the City of Fenwick is a 500 acre Forest Preserve that features a 20 foot waterfall and attracts many birds that the nation claims as its own native birds.

The Duchy, ruled by Duchess Gloriana XII, is described as bordering Switzerland and France in the Alps. It retains a pre-industrial economy, based almost entirely on making wool and Pinot Grand Fenwick wine. It takes its name from its founder, the English knight Sir Roger Fenwick who, while employed by France, settled there with his followers in 1370. Thanks to Sir Roger, the national language is English.

The Duchy of Grand Fenwick is a monarchy led by Duchess Gloriana XII. The nation has two political parties, the Dilutionists, led by David Bentner, and the Anti-Dilutionists, led by Count Mountjoy, the Prime Minister. The names of the parties reflect their positions on whether to dilute the wine exports of the Duchy. The positions of leadership are hereditary.

The Duchy of Grand Fenwick is also completely fictional.

Irish author Leonard Wibberly constructed the tiny country in the mid-1950s and proceeded to place it in a series of ludicrous situations designed to facilitate commentary on the geopolitical situation of the day.

Grand Fenwick appeared in five comedic novels, but the one that introduced the tiny Duchy to the world remains both its most famous outing and has become a popular meme that has endured for over 50 years; 'The Mouse That Roared'.

Wibberly's novel centred around a declaration of war by the tiny Duchy on mighty America over what basically boiled down to copyright infringement on Grand Fenwick's chief export - Pinot Grand Fenwick. The leaders of the Duchy skipped the trade war and went straight to the next stage, invading New York City - coincidentally arriving in the midst of a city-wide disaster drill which rendered the streets completely empty.

The scheme was simple: declare war on the USA, be beaten soundly and quickly and then rebuild and refinance the country through the usual American largesse extended to its vanquished foes (Marshall Plan, anybody?).

**R**ecently, another obscure (but this time all too real) mouse has roared in Europe as Slovakia this week took the ratification of the expanded EFSF to the very brink before finally voting through the motion required to ensure that all 17 members of the Eurozone rubber-stamped the increase in the size of the war chest at the second attempt.

The failure of the first attempt to gain the assent required ultimately toppled Prime Minister Iveta Radicova's four-party coalition government as only 55 of 124 lawmakers voted in favour of the original proposal with 9 voting against and 60 abstaining.

Radicova issued a heartfelt plea ahead of the first vote, the like of which one could only hope to see

in a European parliamentary setting:

*"What we are deciding on today is the good name of Slovakia, reliability, where it will belong... or if we exclude ourselves from the community of the successful...I beg you, trust this government... the interests and reliability of Slovakia are the most valuable things I know, I have, I offer,"*

But Radicova's emotive pleas fell on deaf ears amongst members of the leftist Smer-SD opposition party who offered to team up with the outgoing government and ratify the EFSF – albeit in exchange for a snap election; a strategy no doubt inspired by another 'mouse' that recently roared in the shape of Timo Soini's True Finns Party who recently came from nowhere to turn Finnish politics on its head and almost stole a general election in the process.

Ratifying the EFSF was always going to be a problem for a disparate collection of 17 vested interests who were nearly all looking to Germany to pick up the tab. In order to sell the ratification to the Slovakian people, Radicova's government had to come up with a plausible rationale to explain some highly implausible differences and Richard Sulik, leader of the Freedom and Solidarity Party (SaS) which formed part of the aforementioned coalition hardly helped matters:

*(RT News): "The average pension in Slovakia is less than 400 euros," Sulik declared last week. "The average pension in Greece is 1,400 euros – three, four times higher."*

*"It's impossible to explain to a Slovak pensioner that he or she has to contribute – in the form of higher VAT, for example – toward Greek pensions," he said. "Or toward Italian MPs' salaries, the highest in Europe."*

The SaS, it has to be said, had a fairly compelling argument for why they chose to abstain from the vote:

*(The Conversation): The argument by the Freedom and Solidarity Party in Slovakia is that they have been penalised for having complied with the rules. You can imagine that argument sounds very plausible to many Slovak voters because it was quite a painful process for Slovakia to comply with the Maastricht Treaty criteria that created the common currency – no more than 60% debt to GDP and no more than a 3% deficit of GDP in a year.*

*Greece has consistently violated these conditions – the Greek government hasn't even lived up to the conditions it accepted a year ago. Greece is a complete mess.*

*Who believes these policies have worked when Greece is in a worse state now than it was a year ago?*

In an [interview with Der Spiegel](#) in the days before the vote, Sulik made a hell of a lot more sense than pretty much any of the other Eurocrats who had been running around shooting off their mouths in the lead-up to various ratification votes:

*SPIEGEL ONLINE: Slovakia has yet to approve the expansion of the euro backstop fund, the European Financial Stability Facility (EFSF), because your Freedom and Solidarity (SaS) party is blocking the reform. If a majority of Slovak parliamentarians don't support the EFSF expansion, it could ultimately mean the end of the common currency.*

*Sulik: The opposite is actually the case. The greatest threat to the euro is the bailout fund itself.*

*SPIEGEL ONLINE: How so?*

*Sulik: It's an attempt to use fresh debt to solve the debt crisis. That will never work. But, for me, the*

*main issue is protecting the money of Slovak taxpayers. We're supposed to contribute the largest share of the bailout fund measured in terms of economic strength. That's unacceptable.*

Right there, in one short sentence, Sulik hits the nail on the head for every can-kicking politician around the world who clings to the fanciful notion that increasing the debt load is somehow going to magically cure the fundamental problem facing the world which is; Too. Much. Debt.

Just to make matters worse, Sulik then goes on to make even MORE sense when asked about the fundamental underpinnings of Europe and refuses to fan the flames of fear when asked about a possible conflagration:

*SPIEGEL ONLINE: If the euro only causes problems, why doesn't Slovakia's government just pull the country out of the euro zone?*

*Sulik: I don't see the euro as the problem. It's a good project. Everyone involved can benefit from it -- but only if they stick to the ground rules. And that's exactly what we're demanding.*

*SPIEGEL ONLINE: Which ground rules should we be following?*

*Sulik: We have to observe three points: First, we have to strictly adhere to the existing rules, such as not being liable for others' debts, just as it's spelled out in Article 125 of the Lisbon Treaty. Second, we have to let Greece go bankrupt and have the banks involved in the debt-restructuring. The creditors will have to relinquish 50 to perhaps 70 percent of their claims. So far, the agreements on that have been a joke. Third, we have to be adamant about cost-cutting and manage budgets in a responsible way.*

*SPIEGEL ONLINE: Many experts fear that a conflagration would break out across Europe should Greece go bankrupt and that the crisis will spill over into other countries, including Portugal, Spain and Italy.*

*Sulik: Politicians can't allow themselves to be pressured by the financial markets. Just because equity prices fall and the euro loses value against the dollar is no reason for giving in to panic.*

*And, for the coup de grace, Sulik*

*SPIEGEL ONLINE: But do you really believe that politicians can calm the financial markets by stubbornly sticking to their principles?*

*Sulik: Let's just ignore the markets. It's ridiculous how politicians orient themselves based on whether stock prices rise or fall a few percentage points.*

But it's not simply the disparity in the levels of pensions that might cause the average Slovakian to balk at contributing their €7.7 billion share towards the EFSF. If you dig into the numbers, the scale of the problem becomes apparent:

*(EIU): The question of bailing out Greece and other free-spending euro-zone members is sensitive in Slovakia, which made considerable sacrifices to adopt the single currency at the start of 2009. In that year its public debt was comfortably below 40% of GDP, which is far lower than all of the EU's western members bar Luxembourg. By contrast, the Greek and Italian debt ratios were near 120%, the French and Portuguese ones were near 80% and even fiscally-responsible Germany's ratio was comfortably above 70%. Because Slovakia has run a tight ship fiscally, the issue of bailing out richer, more profligate EU states is highly sensitive domestically.*

Slovakia's share of the EFSF, at €7.7bln is equal to just over 35% of consolidated budget revenue in



Eurozone: Net Average Wage (€)

 Slovakia <sup>[33]</sup>	635 €
 Portugal <sup>[29]</sup>	1,039 €
 Slovenia <sup>[34]</sup>	1,041 €
 Greece <sup>[14]</sup>	1,371 €
 Italy <sup>[17]</sup>	1,457 €
 Spain <sup>[35]</sup>	1,523 €
 Cyprus <sup>[7]</sup>	1,656 €
 Belgium <sup>[3]</sup>	1,825 €
 France <sup>[12]</sup>	1,828 €
 Netherlands <sup>[26]</sup>	1,980 €
 Ireland <sup>[16]</sup>	2,025 €
 Germany <sup>[13]</sup>	2,040 €
 Finland <sup>[11]</sup>	2,043 €
 Austria <sup>[2]</sup>	2,043 €
 Luxembourg <sup>[21]</sup>	2,693 €

Source: Wikipedia

2009. Whilst the total amount is unlikely (and I stress UNLIKELY) to be demanded in one tranche, it still represents a huge burden on a government that came to office attempting to trim a budget deficit that ballooned to 6.8% of GDP in 2009.

A look at the average net wages of the Eurozone's 17 members (left) provides yet more grist to the mill of dissent in Slovakia as she sits comfortably at the top of the list of low earners - just above the profligate PIGS whom she is being expected to support. In fact, the average Greek already earns over twice that of his (or her) Slovakian counterpart. Hardly seems fair now, does it?

So now the EFSF has finally been ratified by the 17 Eurozone members after a little under six months, what happens now? Will the funds contributed, as has been rumoured (not to mention positively encouraged by a spendthrift Tim Geithner) be levered and used to bail out the banks or are we, as I suspect, going to find ourselves trying to figure out exactly how a EuroTARP will work? Clearly, now Slovakia has finally cleared the EFSF for take-off, Europe's banks are set to take centre stage.

**T**his past week I attended the UBS Pan-Asia Hedge Fund Conference here in sunny Singapore and was fortunate enough to listen to a presentation by Larry Hatheway, UBS' chief economist/strategist. In an excellent speech, Larry Laid out what he termed UBS' 'station-to-station' expectations for the path Europe was likely to take in recapitalizing the banks.

Larry proposed that each country would ring-fence only its own banks and recapitalize them to the tune of whatever haircut was required once an orderly Greek default was enacted. Germany would recapitalize German banks,

France would recapitalize French banks and so on down the chain. The idea is a sound one. The plan plausible. The outcome? Who knows? Maybe it works, maybe it doesn't. Unfortunately, I am inclined to believe it doesn't.

There are just way too many conflicting interests, conflicting motives, conflicting national personalities and, perhaps most problematic of all, way too many politicians involved - both at the individual country level and again at the European level. In fact, the day following Larry Hatheway's presentation, a Bloomberg article laid out in very clear terms just how interdependent the countries of the Eurozone and their respective banking systems are, under the headline '[Germany Backing Italy Seen as Key to Europe's Bank Crisis](#)':

*(Bloomberg): European bank stocks have fallen as borrowing costs climbed in recent months amid rising concern that they may have to take greater losses on debt issued by Greece, Italy, Ireland, Portugal and Spain. As policy makers seek to make lenders hold more capital to absorb potential losses, investors and analysts say the banking crisis can't be solved unless Germany, the region's richest country, shows it's willing to stand behind Italy and Spain, the two biggest debtors of the five countries.*

*"What needs to happen as part of this package is that the possibility, the discussion or even remote likelihood of haircuts on Spain and Italy needs to be killed and taken out of the market," Philippe Bodereau, a portfolio manager and global head of financial institutions credit research at Pacific Investment Management Co., said in an Oct. 12 interview with Bloomberg Television.*

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Countries to ratify the amendments of the EFSF framework agreement	Guarantee Commitments Euro (Millions)	ECB Contribution Key (%)
Austria	21.639,19	2.78
Belgium	27.031,99	3.48
Cyprus	1.525,68	0.20
Estonia**	1.994,86	0.19
Finland	13.974,03	1.80
France	158.487,53	20.39
Germany	211.045,90	27.15
Greece*	21.897,74	2.82
Ireland*	12.378,15	1.59
Italy	139.267,81	17.91
Luxembourg	1.946,94	0.25
Malta	707,33	0.07
Netherlands	44.446,32	5.72
Portugal*	19.507,26	2.51
Slovakia	7.727,57	0.82
Slovenia	3.664,2	0.43
Spain	92.543,56	11.90
<b>Sum</b>	<b>779.783,14</b>	<b>100</b>

SOURCE: NATIXIS

*"Bank recapitalizations are necessary but not sufficient."... None of the proposed solutions -- whether they involve the European Central Bank or the 440 billion-euro (\$606 billion) rescue fund known as the European Financial Stability Facility -- can work without Germany, and by proxy the ECB, offering blanket support to Italy, said former International Monetary Fund Chief Economist Simon Johnson.*

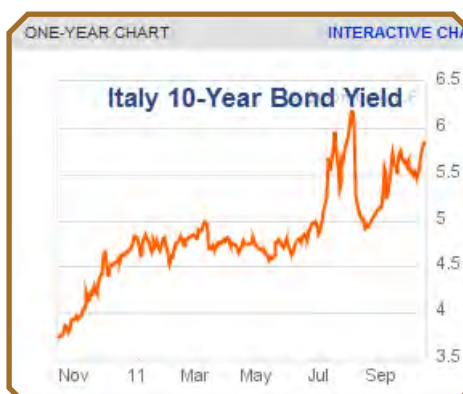
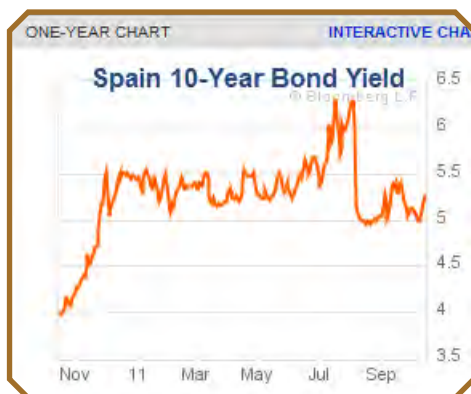
Europe is far too reliant on Germany and the other 'strong' countries for the various individual nations to be able to take care of their own problems - particularly if any localized bank recapitalizations are to be in addition to the already pledged EFSF contributions by each nation (left). What is far more likely is some kind of 'bazooka' or 'shock & awe' (to use two tired cliches) approach using the newly-approved EFSF

If France had to recapitalize BNP and Soc Gen to the tune of €11 billion in addition to its €158 billion stake in the EFSF (as is widely suspected), it could well kiss goodbye to its AAA rating now that the ratings agencies seem to have finally found re-

ligion (Italy & Spain saw downgrades this week) and that, for a country currently running a debt-to-GDP ratio of 84%, would NOT be a good thing.

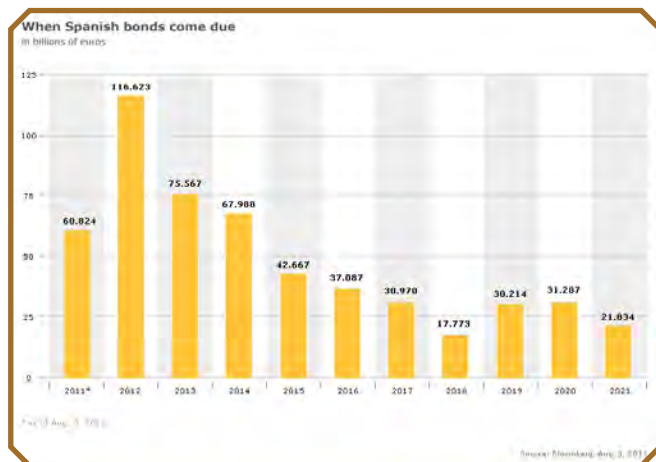
Whether a 'station-to-station' plan is in the works or not, it will rely on a nice, orderly procession from one country to the next and I think it has been made abundantly clear over the last year that Europe DOESN'T do 'orderly'.

There is absolutely no way that the Eurocrats can stop the markets turning their collective eyes towards the next domino in the line at every point in the process. As they struggle to 'fix' the Greek situation, the markets have already done it for them and Greek 1-year bonds now yield 166%. Job done. Next up? Whether the architects of a solution are ready for it or not, it's Spain and Italy... and France.



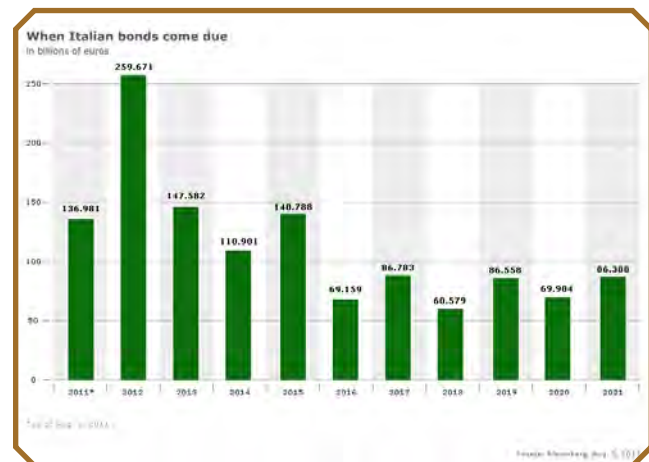
SOURCE: THOMPSONREUTERS

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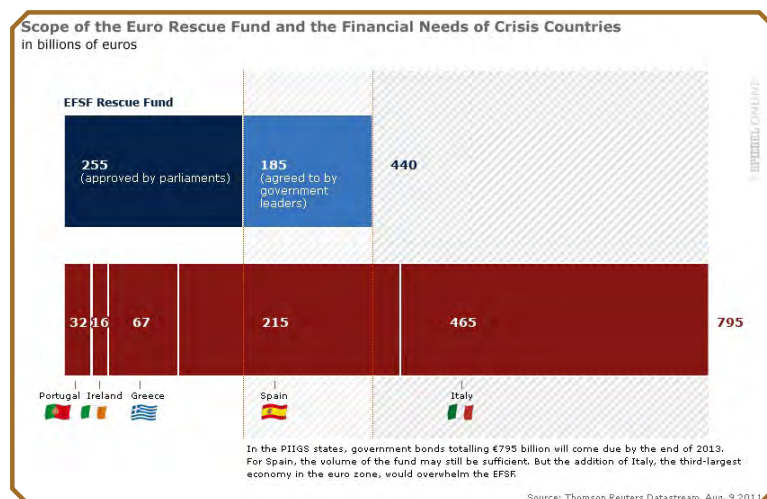
The 'fatal' 6% level came close to being meaningfully breached by both Italian and Spanish 10-year bonds in July, prior to the ECB's emergency purchase program which calmed things down to an extent (although it cost them in excess of €86 billion) in firepower to do so but the real problem could turn out to be the sheer weight of refinancing that needs to be undertaken by both Spain AND Italy through the rest of 2011 and into 2012.

Spain's total of maturing debt for 2011 (€60 billion as of August 3) is dwarfed by the €116.6 billion it needs to rollover in 2012 and Italy is worse still with a massive €137 billion maturing in the last 5 months of 2011 being augmented by €260 billion in 2012 (and another €147 billion in 2013). Should Italy's famously-reliable domestic buyers continue to strike then things will get very ugly indeed.

But don't take my word for it, listen to the incoming head of the ECB; Italian, Mario Draghi:

*(UK Daily Telegraph): "We must act fast. The sorts of interest rate rises seen over the last three months, if protracted, could lead to an uncontrollable spiral," said Mario Draghi, who takes over as head of the European Central Bank next month.*

*Mr Draghi said austerity measures must be enacted "immediately" and warned that Italy's €54bn austerity package is "not enough"... Mr Draghi hinted that ECB help is nearing its political limits, evoking Italy's "atavistic temptation" of waiting for an army to cross the Alps to sort out its problems.*



[CLICK TO ENLARGE](#)

SOURCE: BLOOMBERG/DER SPIEGEL

Doesn't sound to me as though an 'every man for himself' approach is going to work.

A look at the charts (above and left) shows just how insignificant the problems of Portugal, Ireland and Greece really are in the wider scheme of things and yet the spectre of a Greek default - orderly or otherwise - has paralysed Europe and the rest of the world for months now. If the fire really DOES jump the road to Spain and Italy in any meaningful way, the game is over. If France catches light too...well, by that stage it won't really matter.



*(Bloomberg): Greece, Italy, Ireland, Portugal and Spain, known as the GIIPS, have about 2.9 trillion euros of government bonds outstanding, according to data compiled by Bloomberg. Italy, the third-largest issuer of debt after the U.S. and Japan, accounts for more than half, or 1.59 trillion euros, the data show.*

*About 413 billion euros of GIIPS debt is held by 38 of Europe's largest lenders, according to an analysis of the stress-test results by Alberto Gallo, a strategist at RBS in London. Those holdings equal almost 40 percent of the banks' 1.1 trillion euros of equity, according to Gallo.*

*European banks, having agreed to a voluntary loss of about 21 percent, are bracing for further writedowns on Greece's 288 billion euros of government bonds, which carry Moody's second-lowest rating of Ca and an equivalent CC by Standard & Poor's. European officials are considering writedowns of as much as 50 percent on Greek bonds as part of a revamped strategy to combat the crisis, people familiar with the discussions said.*

**T**his week, Credit Suisse published a report that suggested the NEXT round of European Bank stress tests would value government bonds more closely than in the July stress tests - begging the question "What is the POINT of a stress test if it DOESN'T place realistic marks on the very liabilities being stress-tested?" But then, we already know the answer to THAT question, don't we?

The report suggests a €220 billion shortfall at 66 of the participating banks (citing RBS, Deutsche Bank and BNP as being most endangered) and predicts that two-thirds of the region's banks would fail the test - a far cry from the most recent stress tests, conducted three months ago, which gave Dexia a clean bill of health...

So if we assume the Credit Suisse numbers are correct and the recapitalization of European banks will require €220 billion (which is, coincidentally, exactly half of the size of the expanded EFSF) then it stands to reason that a much bigger amount is going to be required in order to ring-fence the next dominos in line and that means good, old-fashioned leverage. Yes. The source of the entire problem will now be used to solve it. It's really quite beautiful if you think about it.

Look for an announcement out of this weekend's G-20 meetings that will mention some kind of multi-trillion Euro pledge to make 'absolutely certain' that everything is fixed and nobody needs to worry about anything anymore.

Me? I remain skeptical - after all, we have just seen how the murine roar of little Slovakia very nearly derailed a political process that had taken six months to coordinate, and that process was required in order to approve a €440 billion bailout fund. Now, it is likely a fresh round of approvals will be required to increase it to several trillion and the largest contributor to those pledges will undoubtedly be Germany; The same Germany whose Constitutional Court ruling last month gave the Bundestag's Budget Committee an effective veto over future activation of the EFSF, and reinforced German constitutional restrictions on the introduction of Eurobonds.

This isn't over people - not by a LONG shot.

This week's content, once again, contains plenty on the Eurozone as we hear how the ECB has suggested to Belgium that in NOT backstop Dexia's interbank deposits, Germany's leaders have begun to call for changes to the EU treaties and none other than UBS' Stephane Deo puts the kibosh on the latest European bailout plan.



Over in China, as worries about a hard landing intensify, we look at the burgeoning loan shark industry and see how rising food prices are far more important to the Chinese government than a moderating headline inflation number.

In the Ukraine, we find political skullduggery afoot as the former Prime Minister is jailed for seven years, ZeroHedge looks at foreign activity in the Treasury market and comes up with a worrying statistic, Jeff Clark looks at the disparity between gold and gold stocks and, in the two busiest ports in the United States, the usual Christmas retailing rush looks like little more than a pipe dream.

Michael Lewis heads to California and dodges the traffic on an early morning bike ride with the ex-Governator, we take a look at the US budget deficit and long-term interest rates in graphical form, the strange dichotomy between retail sales and consumer confidence has us scratching our heads and China's black market for lending gains a bigger piece of the pie.

Talking of China and her lending issues, in our interviews section, we hear from Jim Chanos on why he still thinks there is BIG trouble in little China and, for those of you fascinated by Bill Ackerman's recent HKD trade, we hear from John Greenwood - one of the original architects of the HK dollar peg.

Martin Armstrong is back talking to Eric King about a whole bunch of interesting stuff and, if you have the time, there is even a link to an interview I gave to Al Korelin in which we discussed the Occupy Wall Street movement (a situation that has taken a distinct turn for the worse since Al and I spoke earlier in the week) as well as the likely path gold will take from here.

**N**OW it's time to turn it over to the G-20...

Late Note:

Since penning this editorial on Saturday, it seems as though there has been some information emanating from the G-20 Finance Ministers meetings in Paris, to wit:

*Germany and France are spearheading a multi-trillion dollar "shock and awe" programme expected to be agreed next weekend and presented the following week at the G20 summit in Cannes.*

Hmmm.....That article seems to confirm that there is a plan about having a plan to discuss a plan to be presented in Cannes. Responsibility for solving the Eurozone crisis has now officially been turned over to [Danny Kaye](#).

Until next week when, no doubt, everything will have changed again

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

*Grant*

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## The Ginnie, Ginnie Banks

#	Bank	Assets (\$m)	Deposits (\$m)	Cost (\$m)
77	Piedmont Community Bank, Gray, GA	201.7	181.4	71.6
78	Blue Ridge Savings Bank, Inc., Asheville, NC	161.0	158.7	38.0
79	First State Bank, Cranford, NJ	204.4	201.2	45.8
80	Country Bank, Aledo, IL	190.6	167.5	66.3
<b>Total Cost to FDIC Deposit Insurance Fund</b>				<b>221.7</b>

On August 5, 2011, moments after the U.S. government watched a rating agency lower its credit rating for the first time in American history, the market for U.S. Treasury bonds soared. Four days later, the interest rates paid by the U.S. government on its new 10-year bonds were plummeting on their way to record lows. The price of gold rose right alongside the price of U.S. Treasury bonds, but the prices of virtually all stocks and other bonds in rich Western countries went into a free fall. The net effect of a major U.S. rating agency's saying that the U.S. government was less likely than before to repay its debts was to lower the cost of borrowing for the U.S. government and to raise it for everyone else. This told you a lot of what you needed to know about the ability of the U.S. government to live beyond its means: it had, for the moment, a blank check. The shakier the United States government appeared, up to some faraway point, the more cheaply it would be able to borrow. It wasn't exposed yet to the same vicious cycle that threatened the financial life of European countries: a moment of doubt leads to higher borrowing costs, which leads to greater doubt and even higher borrowing costs, and so on until you become Greece. The fear that the United States might actually not pay back the money it had borrowed was still unreal.

On December 14, 2010, the television news program 60 Minutes aired a 14-minute piece about U.S. state and local finances. Correspondent Steve Kroft interviewed a private Wall Street analyst named Meredith Whitney, who, back in 2007, had gone from being obscure to famous when she correctly

“... The net effect of a major U.S. rating agency's saying that the U.S. government was less likely than before to repay its debts was to lower the cost of borrowing for the U.S. government and to raise it for everyone else...it had, for the moment, a blank check...”

suggested that Citigroup's losses in U.S. subprime bonds were far bigger than anyone imagined, and predicted the bank would be forced to cut its dividend. The 60 Minutes segment noted that U.S. state and local governments faced a collective annual deficit of roughly half a trillion dollars, adding that another trillion-dollar gap existed between what the governments owed retired workers and the money they had on hand to pay them. Whitney pointed out that even these numbers were unreliable, and probably optimistic, as the states did a poor job of providing information about their finances to the public. New Jersey governor Chris Christie concurred with her and added, “At this point, if it's worse, what's the difference?” The bill owed by American states to retired American workers was so large that it couldn't be paid, whatever

the amount. At the end of the piece, Kroft asked Whitney what she thought about the ability and willingness of the American states to repay their debts. She didn't see a real risk that the states would default, because the states had the ability to push their problems down to counties and cities. But at these lower levels of government, where American life was lived, she thought there would be serious problems. “You could see 50 to a hundred sizable defaults, [maybe] more,” she said. A minute later Kroft returned to her to ask when people should start worrying about a crisis in local finances. “It'll be something to worry about within the next 12 months,” she said...

Whatever else she had done, Meredith Whitney had found the pressure point in American finance: the fear that American cities would not pay back the money they had borrowed. The market for municipal bonds, unlike the market for U.S. government bonds, spooked easily. American cities and states were susceptible to the same cycle of doom that had forced Greece to seek help from the International Monetary Fund. All it took to create doubt and raise borrowing costs for states and cities was for a woman with no standing in the municipal-bond market to utter a few sentences on television.

★ ★ ★ MICHAEL LEWIS / [LINK](#)

The European Central Bank advised Belgium not to backstop Dexia SA's interbank deposits and to avoid providing guarantees on debt maturing within three months because it risks interfering with the central bank's monetary policy.

The ECB also said the planned debt guarantees for Dexia may last as long as 20 years, which is inconsistent with European Union guidelines for national support measures to be temporary in nature, according to a statement published on the Frankfurt-based central bank's website and dated Oct. 13. Belgium sought the ECB's opinion on draft legislation that would grant state guarantees on Dexia loans.

Guarantees on interbank deposits "could entail substantial distortion in the various national segments of the euro-area money market by potentially increasing short-term debt issuance activity across member states," the ECB said in the statement. "It could also affect the transmission of monetary policy decisions."

Dexia obtained a pledge from the governments of France, Belgium and Luxembourg last week to backstop as much as 90 billion euros (\$125 billion) of interbank and bond funding with maturities of as much as 10 years until 2021. The French-Belgian municipal lender, which is being broken up after concern over its European sovereign debt holdings caused short-term funding to evaporate, sought state guarantees to finance long-term assets including 95 billion euros of bonds with an average maturity of almost 13 years at the end of June.

Three years ago, Dexia received as much as 150 billion euros of debt guarantees from France, Belgium and Luxembourg, of which it tapped a maximum of about 96 billion euros in May 2009. Those backstops also included interbank deposits.

The bank stopped issuing government-backed debt in June 2010 and still had 29 billion euros outstanding yesterday, according to data from the Belgian central bank.

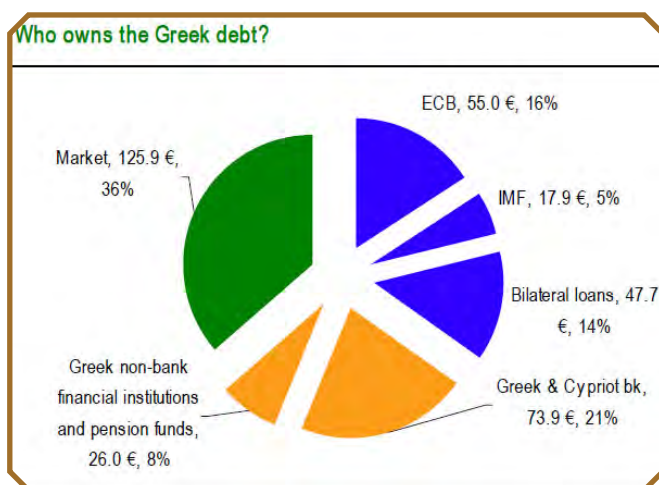
☆☆☆ [BLOOMBERG / LINK](#)

**UBS'** Stephane Deo has rapidly become one of the most vocal, and luckily most erudite, critics of the veritable rumor-a-palooza that Europe has become: a continent that is now desperately throwing anything and everything at the wall in hopes it will stick and generate another intraday EURUSD short covering squeeze to perpetuate the illusion that Europe is viable for at least one more day. His note today effectively puts an end to the most current approach whereby Greece will see a 50% haircut on its debt (the 21% haircut proposal from July 21 is now dead and buried as we had suggested back then). With that, he forces Europe back to the drawing table to come up with a plan that is endorsed by the market, with just 9 short days until the Eurogroup Summit on October 23 at which

point kicking the can into the future will no longer be tolerated and the market will finally judge Europe not for promises, rumors, lies, innuendo and hyperbole, not necessarily in that order, but on actual decisions and policies. Alas, if the 50% haircut idea, which is now proposed by Germany (in diametrical contrast to a month ago), and staunchly opposed by France whose banks, unlike Deutsche Bank, have not been able to dispose of legacy exposure, is killed before it is even implemented, look for a spike in panic in Europe which will now have to redo everything from scratch.

As to why Herman Van Rompuy should be panicking, here is Deo's summary:

*For more than a year we have argued that Greece will not be able to avoid a default. In this piece, we look at how*



[CLICK TO ENLARGE](#)

**SOURCE: BLOOMBERG/IMF/UBS**



*this could be done. We think a 50% haircut makes little sense: if we take into account the lenders that cannot participate in the haircut (IMF, bilateral loans) and the bank recapitalisation it would trigger in Greece, we find that a 50% haircut would actually reduce the stock of debt by only 22%. Rather, we think a large restructuring of the debt (i.e. a "super PSI") is the solution. It would reduce the financial needs of Greece, postponing for decades the redemption of bonds. It would also cut the deficit if coupon payments were reduced sufficiently. This would come with manageable needs for bank recapitalisation. Finally, such a step would remove the need to default, or rather, it would be akin to the default we expect.*

He continues:

*why a 50% haircut does not work At the time of writing, Greece has total debts of €346.4bn. About a third of this debt is in public hands (34.8% is attributable to the IMF, ECB and European governments), roughly another third is in Greek hands (28.8%, essentially for banks) with the remainder (36.4%) held by non-Greek private investors.*

★ ★ ★ ZEROHEDGE / [LINK](#)

**C**hina's closely watched inflation rate dipped slightly in September, but analysts said it was unlikely to ease tight credit policies on fears surging prices may cause social unrest.

The 6.1pc year-on-year rise in the consumer price index (CPI) for September marks only a marginal slowdown from 6.2pc in August.

“... Stubbornly high inflation has persisted despite government moves to rein in soaring food and housing prices, which officials fear could cause social unrest as citizens grow angry at higher costs.

Stubbornly high inflation has persisted despite government moves to rein in soaring food and housing prices, which officials fear could cause social unrest as citizens grow angry at higher costs.

Inflation peaked in July, hitting a more than three-year high of 6.5pc, according to figures released by the National Bureau of Statistics.

In August, thousands of taxi drivers went on strike in the eastern tourism hub of Hangzhou to protest high fuel costs and other grievances.

China has already implemented a number of policies over the past year to try to slow the rise in prices, including restricting the amount of money banks can lend and hiking interest rates five times since October last year.

“This confirms inflation will follow a downward trend in the fourth quarter. But in the long term, inflation will stay at high levels,” Zhang Zhiwei, Hong Kong-based economist with Nomura Securities, told AFP.

The slight slowdown in inflation in September is unlikely to convince the government to radically loosen its tight credit policy, at least in the short-term, analysts said.

“Tightening of monetary policy and growth moderation have ensured that inflation is now in retreat,” Alistair Thornton, China analyst at Global Economics, said in a report.

But he added: “For the moment, we remain in policy stasis - no more tightening, but no real loosening.”

The key food component of inflation rose 13.4pc year-on-year in September, unchanged from the August level, the statistics bureau said.

## THINGS THAT MAKE YOU GO *Hmmm...*

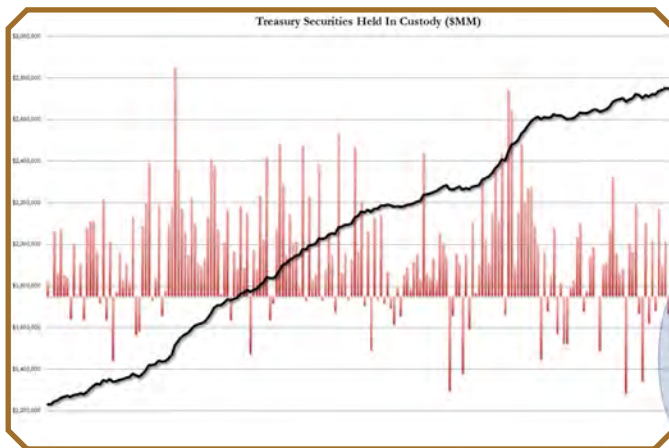
Chinese Premier Wen Jiabao said just last month that he “cannot relax” due to soaring prices in China that have led to steep rises in the cost of food, as he vowed to step up the fight against inflation.

Food prices are of particular concern, as they affect the daily lives of everyone in the country, with foodstuffs accounting for more than one-third of the monthly spending of the average Chinese consumer.

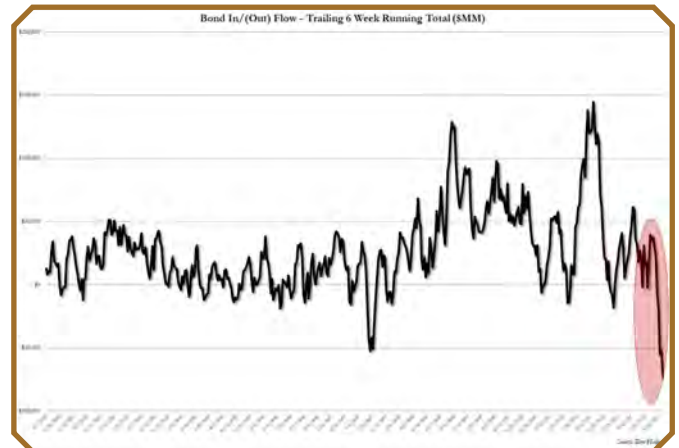
★ ★ ★ UK DAILY TELEGRAPH / [LINK](#)

**O**ver the weekend, we observed the perplexing sell off of \$56 billion in US Treasuries courtesy of weekly disclosure in the Fed’s custodial account (source: H.4.1) and speculated if this may be due to an asset rotation, under duress or otherwise, out of bonds and into stocks, to prevent the collapse of the global ponzi (because when the BRICs tell the IMF to boost its bailout capacity you know it is global). We also proposed a far simpler theory: “the dreaded D-day in which foreign official and private investors finally start offloading their \$2.7 trillion in Treasuries with impunity (although not with the element of surprise - China has made it abundantly clear it will sell its Treasury holdings, the only question is when), has finally arrived.” In hindsight the Occam’s Razor should have been applied.

Little did we know 5 short days ago just how violent the reaction by China would be (both post and pre-facto) to the Senate decision to propose a law for all out trade warfare with China. Now we know - in the week ended October 12, a further \$17.7 billion was “removed” from the Fed’s custodial Trea-



[CLICK TO ENLARGE](#)



SOURCE: ZEROHEDGE

sury account, meaning that someone, somewhere is very displeased with US paper, and, far more importantly, what it represents, and wants to make their displeasure heard loud and clear. Whether it is China - we do not know: we may have a better view in two months when the September/October TIC data hits, but even then it will be full of errors, as Direct Bidder purchases by the UK usually end up being assigned to China at the yearly TIC audit. And the sellers know this all too well. What they also know is that over the next few days (or weeks - ZH tends to be a little “aggressive” in its estimates for popular uptake), as soon as the broader population understands what has transpired, concerns about the reserve status of the greenback will start to resurface, precisely as many have been warning. And what has happened is that in six consecutive weeks, foreigners have sold \$74 billion, or more government bonds in a sequential period of time than ever before.

So... perhaps it is time to reevaluate US intentions for a trade war with any of its “evil” mercantilist, UST-recycling partners. Unless, of course, they want \$74 billion to become \$740 billion, and to force the Fed to have no choice but to intervene, only this time not with a duration sterilized procedure, but one where the Fed has to buy everything that China et al are selling.

On the other hand, judging by the traditional reaction of various precious metals to this kind of fiat suicide, perhaps it is not such a bad idea after all...

★ ★ ★ ZEROHEDGE / [LINK](#)

**A** new idea to solve the euro crisis has suddenly become popular among Germany’s political parties. People from all sides of the political spectrum are falling over themselves to call for a new European convention in a bid to fix the crisis that is putting the whole future of the European Union at risk.

According to the proposal, the convention -- which would be composed of representatives of national parliaments and governments, the European Parliament and the European Commission -- would revise the current European treaties as quickly as possible. There is a widespread belief in Germany that the euro crisis, which has long since become a crisis of the European Union, cannot be solved in the long term without fundamental changes to the treaties.

Chancellor Angela Merkel has said as much. When Merkel, together with French President Nicolas Sarkozy, recently announced they had come up with a comprehensive package of measures to solve the crisis, the chancellor said it would include “changes to the treaties.” A draft position paper on European policy for the party congress of Merkel’s conservative Christian Democrats in November says that such changes are “in the interest of a Europe that is capable of taking action, transparent and democratic.”

“... It seems that the race toward a new Europe has begun -- and the Germans want to be at the front of the pack

“There is no way around it,” wrote Foreign Minister Guido Westerwelle, the former leader of the business-friendly Free Democratic Party (FDP), in a guest editorial for the Berlin newspaper Tagesspiegel. “A change to the treaties is necessary for there to be an effective change in the stability rules,” he added, referring to the euro-zone debt and deficit rules laid down in the Maastricht Treaty.

The Greens are of the same opinion. Like the CDU, the Greens are also devoting a motion to Europe at their national congress in a few weeks’ time. They want to open a “new chapter” and make it clear “why we need more, not less, Europe.”

“We need a new treaty between Brussels and its citizens in order to discuss the necessary far-reaching reforms and get the process in motion,” says Green Party co-leader Cem Özdemir. Germany’s Martin Schulz, head of the Social Democrats’ group in the European Parliament, took a similar position in remarks to the public radio station Deutschlandfunk: “We need to change the treaties,” he said.

It seems that the race toward a new Europe has begun -- and the Germans want to be at the front of the pack. The only problem is that the whole of the EU has to share the same goal. And some European leaders have little desire to follow Merkel’s lead.

★ ★ ★ DER SPIEGEL / [LINK](#)

**T**he 300 employees of Aomi Fluid Equipment here were delighted recently when the owner offered an all-expenses-paid, two-day trip to a mountain resort three hours away.

Except Boss Sun.

When the employees returned from their holiday, they found that the factory had been stripped of its equipment and that Boss Sun had fled town. “It was entirely empty,” Li Heying, a former Aomi worker, said of the factory. “It was like what happens in wartime.”

The boss, as it turned out, was millions of dollars in debt to loan sharks — underground lenders of the sort that many private businesses in China routinely use because the government-run banks typically lend only to big state-run corporations.

As China’s economy has begun to slow slightly, more and more entrepreneurs are finding themselves in Mr. Sun’s straits — unable to meet debt payments on which interest rates often run as high as 70 percent in this nation’s thriving unregulated, underground loan system. Such illegal lending amounts to about \$630 billion a year, or the equivalent of about 10 percent of China’s gross domestic product, according to estimates by the investment bank UBS.

In recent months, at least 90 business executives from this coastal city, a one-hour flight south of Shanghai, have disappeared because of mounting debts and impending bankruptcies, according to a local government report.

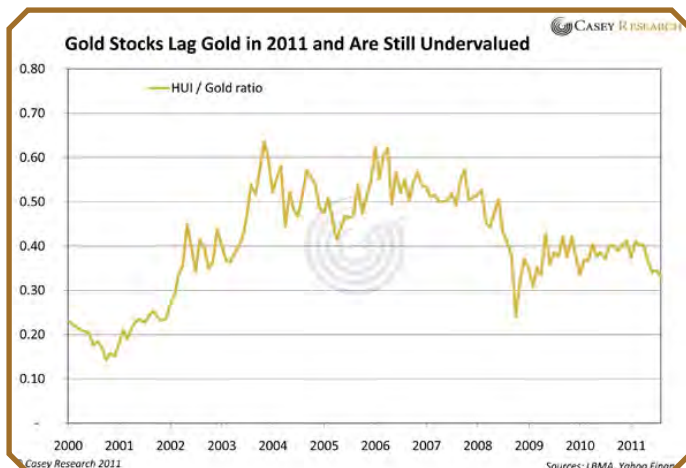
Whether out of fear of mafia-style loan enforcers — kidnappings and broken kneecaps are common tactics — or the family dishonor that is its own harsh penalty in China, some of the Wenzhou missing have gone into hiding or fled overseas.

And in the last few weeks, at least three have tried to commit suicide by jumping off high-rises in the city, according to the state-run news agency, Xinhua, which reported that two of them died and the other survived with a broken leg.

That tycoons in a city known for its savvy entrepreneurs are running scared has raised concerns that private business, a vibrant part of China’s economy, may be losing steam — while exposing the high-risk, unregulated financial system on which so many of the nation’s small and medium-size businesses have come to depend.

“There have always been people running away because they couldn’t pay their debts,” said Wang Yuecai, general manager at Wenzhou Yinfeng Investment & Guarantee, which guarantees state bank loans when small businesses are lucky enough to get them. “But recently, the situation here has gotten much worse.”

☆☆☆ NY TIMES / [LINK](#)



SOURCE: CASEY RESEARCH

By almost any measure, gold stocks are undervalued. Should we load up?

After completing my research on this question, I’m convinced more than ever that we at Casey Research are in the right place. See if you agree...

Let’s first get a handle on the degree of undervaluation. The more undervalued, the lower the buying risk. A fairly valued stock, on the other hand, requires added caution.

Gold accelerated higher last month, peaking around



\$1,900/ounce, while gold stocks lagged. Here's a chart of the HUI-to-gold ratio (HGR). In a rising gold environment, a climbing HGR indicates that gold stocks are outperforming the metal; a falling HGR means they're trailing gold.

Today's 0.33 HGR means gold stocks as a group have not been this cheap, relative to their underlying metal, since January 2010. And a lower ratio hasn't been seen since February 2009, when recovering from the 2008 global meltdown.

Also consider that the GDX (Gold Miners ETF) is about the same price as last December, while gold is up 30%.

I think there's a more compelling situation that demonstrates the undervalued nature of gold stocks. It's hard to read a mining company's quarterly report these days without hearing about "growing margins." The gold price has risen faster than operating costs across our industry and lifted profit margins of the better-run producers.

Higher margins are key to growing earnings and cash flow, which in turn lead to rising stock prices. Have gold mining equities kept pace with ever-increasing margins?

Gold mining companies are earning record margins, averaging a whopping \$1,268 per ounce last quarter. In both nominal dollars and percentage above costs, margins have never been this high for the gold producers. Stock prices, however, have not responded in similar fashion.

★ ★ ★ JEFF CLARK / [LINK](#)

**A**t the ports of Los Angeles and Long Beach, 2011 is shaping up to be the year that Santa forgot. The surge in holiday cargo headed to retailers' shelves, which usually begins no later than August, is still nowhere to be seen, officials say.

The news is especially grim given that prognosticators for the National Retail Federation had declared as recently as last month that the summer-long downturn of trade at the nation's largest seaports was over. September was supposed to have been a banner month, with an increase of nearly 12% in imports to the U.S. compared with last year, they said.

**“... Although the U.S. economy is still technically expanding, it's not reflected in the trade numbers**

But the optimism appears to have been badly misplaced.

“The world economic recovery has slowed. The risk of a new recession is rising,” said economist Paul Bingham of Wilbur Smith Associates. “Although the U.S. economy is still technically expanding, it's not reflected in the trade numbers, especially in big volume items like furniture and appliances.”

International trade is one of Southern California's most important sources of relatively high-wage blue-collar employment. More than half the state's 1.1 million cargo-related jobs are located in the region, where a boost in cargo would have had an immediate effect on the amount of work available to dockworkers, truck drivers, warehouse and distribution center staff, railroad workers and others.

Instead, cargo traffic through the Port of Los Angeles showed a slight overall decline in September, down 0.8% to 705,623 cargo containers, compared with 711,613 a year earlier. Imports through the nation's largest container port were down 0.2% to 372,655 containers. The only bright spot was in U.S. exports through Los Angeles, which continued on a course toward a new record, up 26.6% to 176,954 containers.

“We were hoping to see more of a spike in the numbers in September, but it now looks like we may

have reached a plateau and the traditional peak season has not materialized,” said Phillip Sanfield, spokesman for the Port of Los Angeles. Through September, Los Angeles is running just 0.3% ahead of its 2010 pace, having handled about 5.9 million cargo containers.

Cargo movement also has slowed in the neighboring Port of Long Beach, although there was an important caveat with the nation’s No. 2 container port. Long Beach has been running with six terminal operators this year instead of the usual seven. It lost about 10% of its business to the Port of Los Angeles when the Hyundai terminal vacated its Long Beach facilities as that port embarks on its massive \$1.2-billion Middle Harbor renovation and expansion project.

Long Beach port officials were still tallying its September numbers Thursday, but preliminary results showed that import-filled container traffic would be down 5% to 8% for the month compared with the same month last year. Exports are expected to post a similarly weak showing.

“For a traditional peak season month like September, the numbers are not good,” said Art Wong, a spokesman for the Port of Long Beach.

★ ★ ★ LA TIMES / [LINK](#)

**S**even years ago Yulia Tymoshenko, a populist politician dressed in orange, climbed onto a stage in a snow-covered Kiev and galvanised 150,000 protesters against the rigged victory of Viktor Yanukovich in the 2004 presidential election. She sustained the energy of the crowd for days and ushered Viktor Yushchenko to victory, pledging retribution for those who stood in his way. “Glory to Ukraine”, she hailed; the crowd shouted “Yulia”.

Close to the orange revolution’s seventh anniversary, she made headlines again. This time the former prime minister, wearing grey, sat in court to hear a nervous judge reading out a sentence of seven years’ jail, a three-year ban on public office and a fine of \$190m as purported compensation for damage allegedly caused when she struck a gas deal with Russia in 2009.

“... By locking up Ms Tymoshenko, Mr Yanukovich has crossed a line separating the chaotic and corrupt but pluralist country that Ukraine was from the Putin-style kleptocracy it is becoming” The term was symbolic: a year in jail for every one that has passed since the orange revolution.

Ever since Ms Tymoshenko was detained in jail on August 5th, the outcome has been predictable. It would have been out of character for Mr Yanukovich, now Ukraine’s thuggishly vindictive president, to let his bitter rival, who has often humiliated and poked him with his own criminal past, to go free. It would be against Ms Tymoshenko’s nature not to turn her show trial into political theatre. Even before the judge

had finished reading the sentence, she turned to the cameras: “This is an authoritarian regime...I will not stop my struggle”. As she was led out of court she called on her supporters to overthrow the regime, again chanting “glory to Ukraine”.

Outside, a few thousand supporters were pushed around by riot police, but this was a poor echo of the crowd seven years ago. Most Ukrainians see the trial as political, but they are too disillusioned to trust opposition leaders. In the past few months Ms Tymoshenko’s modest popularity rating has barely budged even as Mr Yanukovich’s has slid downwards.

The significance of the verdict goes far beyond Ms Tymoshenko and Mr Yanukovich. It will determine the country’s future direction. By locking up Ms Tymoshenko, Mr Yanukovich has crossed a line separating the chaotic and corrupt but pluralist country that Ukraine was from the Putin-style kleptocracy it is becoming.

Since being elected president in February 2010, Mr Yanukovich has moved in two directions, consolidating his personal power but also pursuing economic integration with the European Union. His democratic failings were offset in the eyes of some Western leaders by a contrast with the infuriatingly ineffective Mr Yushchenko. After 18 months of Mr Yanukovich, Ukraine looks more like Russia; but it is closer to a trade and association agreement with the EU.

★ ★ ★ THE ECONOMIST / [LINK](#)

**G**eorge Osborne has admitted for the first time that Britain may have to provide billions of pounds more to bail out the eurozone as part of €2 trillion international efforts to shore up the single currency bloc and revitalise the flagging global recovery.

G20 finance ministers, including the US Treasury Secretary Tim Geithner, agreed in Paris during the weekend that the International Monetary Fund (IMF) should consider using its resources to backstop a massive eurozone-led rescue effort. Under the terms of its membership, the UK will be liable for 4.2pc of any funds provided by the IMF. The IMF has \$390bn available.

Britain has currently a maximum \$20bn commitment to the IMF, and has pledged about £10bn to support the eurozone through the IMF and a bi-lateral loan to Ireland.

“... Indicating the progress made, the G20 communique spoke of “work to maximise the impact of the EFSF” and “decisively addressing the current challenges through a comprehensive plan”

Germany and France are spearheading a multi-trillion dollar “shock and awe” programme expected to be agreed next weekend and presented the following week at the G20 summit in Cannes.

The international community may provide further support after the G20 agreed that the IMF should “consider new ways to provide on a case by case basis short-term liquidity to countries facing systemic shocks”. The IMF will report back on what measures it would offer at the summit in Cannes.

Britain and the US were keen to stress that unconventional IMF assistance should not be used as a substitute for a European plan. George Osborne said: “We have indicated our willingness to consider our position on resources for the IMF. Additional IMF resources must not be a substitute for the eurozone committing its resources to supporting its own currency.”

Pouring cold water on offers from the IMF’s emerging nation members to provide extra funding, Mr Geithner added: “The IMF has a substantial arsenal of financial resources and we would support further use of those existing resources to supplement a well-designed European strategy alongside a more substantial commitment of European resources.”

He was speaking after what appeared to be significant progress in Europe’s attempts to ring-fence the sovereign debt crisis around Greece. Germany and France have now agreed the principles of a €2 trillion to €3 trillion rescue plan. Mr Osborne said they had just seven days to come up with “something quite impressive”.

Details will be thrashed out this week but there now appears to be consensus around the core measures – to increase the firepower of the eurozone bail-out fund (EFSF) from €440bn to around €2 trillion, to recapitalise the banks with €100bn-€200bn, and to devise a credible programme for Greece, including losses for private sector creditors of as much as 50pc.

In addition, there will be a new push to boost competitiveness among weaker economies and longer-term proposals to tighten economic governance across the single currency bloc.

Indicating the progress made, the G20 communique spoke of “work to maximise the impact of the EFSF” and “decisively addressing the current challenges through a comprehensive plan”. Countries will also “ensure banks are adequately capitalised”, the statement said.

★ ★ ★ UK DAILY TELEGRAPH / [LINK](#)

**T**he alleged Iranian plot to kill Saudi Ambassador to the United States Adel al-Jubeir on U.S. soil has been dismissed by most commentators as being too far-fetched to be true. Indeed, the plan the U.S. government is accusing the Islamic Revolutionary Guard Corps (IRGC) of coordinating is well outside the organization’s traditional sphere.

However, Washington’s confidence in its accusation is notable, as is the possibility for other, unreleased evidence. If the plot was real, it says much about the Iranian intelligence services’ scope, ambitions and capabilities.

“... The alleged Iranian plot to kill Saudi Ambassador to the United States Adel al-Jubeir on U.S. soil has been dismissed by most commentators as being too far-fetched to be true. Indeed, the plan the U.S. government is accusing the Islamic Revolutionary Guard Corps (IRGC) of coordinating is well outside the organization’s traditional sphere

The IRGC and its elite Quds Force generally have not been responsible for covert operations that do not involve proxy groups or that are far abroad. They mostly stay in the Middle East and South Asia (with a notable appearance in Venezuela in 2010), working to establish ties with insurgent groups they can use as proxies in volatile areas such as Hezbollah in Lebanon, the Jaish-al-Mahdi brigades in Iraq and parts of the Afghan Taliban. Traditionally, the IRGC brings members of these groups to Iran for training.

The Quds Force is thought of as a corollary to special operations forces that train foreign militaries and carry out clandestine military operations. Iran’s Ministry of Intelligence and Security (MOIS), on the other hand, is generally responsible for operations in Europe and the United States, including a series of assassinations carried out in the 1980s. MOIS is a known operator in the United States and would likely have the resources and experience to carry out a clandestine operation there.

This was not the case in the recent incident. Manssor Arbabsiar, the man charged in the plot, allegedly met with an informant for the U.S. Drug Enforcement Administration (DEA) who was posing as a member of a Mexican cartel. This informant never went to Iran, and there is no indication the IRGC is involved in training or arming cartels. It is also odd that the IRGC would use Arbabsiar, a U.S. citizen with both Iranian and U.S. passports who has no apparent connection to the IRGC other than, allegedly, a cousin in the Quds Force. Typically, a trained intelligence officer would be the one to contact a potential proxy group for development, not a new recruit.

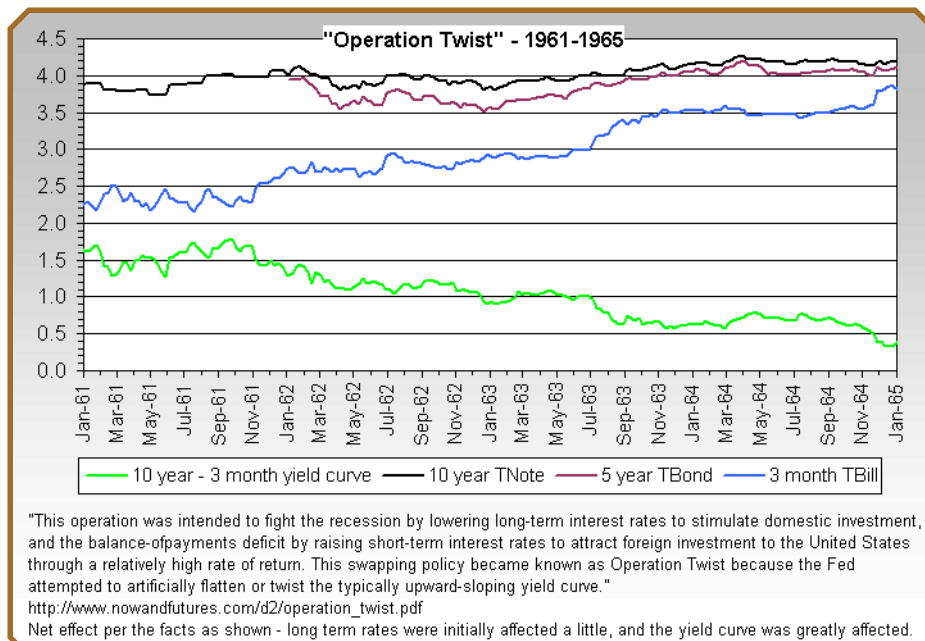
There also is the question of why al-Jubeir was targeted. It would be much easier for Iranian forces, particularly the IRGC, to kill a Saudi official in the Middle East. Moreover, assassinating al-Jubeir in the United States would likely have serious consequences for Iran -- perhaps even in the form of a U.S. military response.

The dubiousness of the alleged plot did not stop U.S. officials from blaming it on the IRGC, something they would be unlikely to do without substantial evidence. U.S. President Barack Obama reaffirmed confidence in the evidence against Iran when speaking Oct. 13. In any criminal prosecution in espionage matters, information is often left out for fear of exposing sources and methods. It is possible -- though not verifiable -- that this is the case in the recent alleged plot.

★ ★ ★ STRATFOR / [LINK](#)



## CHARTS THAT MAKE YOU GO *Hmmm...*



CLICK TO ENLARGE

SOURCE: NOW AND FUTURES

A graphical look at the original Operation Twist from 1961 to see how it affected the curve 50 years ago.

I am willing to bet that the effects in 2011 are significantly different than those demonstrated in the chart (left).

Bernanke & Co. are hardly likely to just assume that things would follow the same script as they did in the 1960s, surely? I mean, it's not as though they are just a bunch of academics with no real-world experience now, is it?

Thanks Bart!

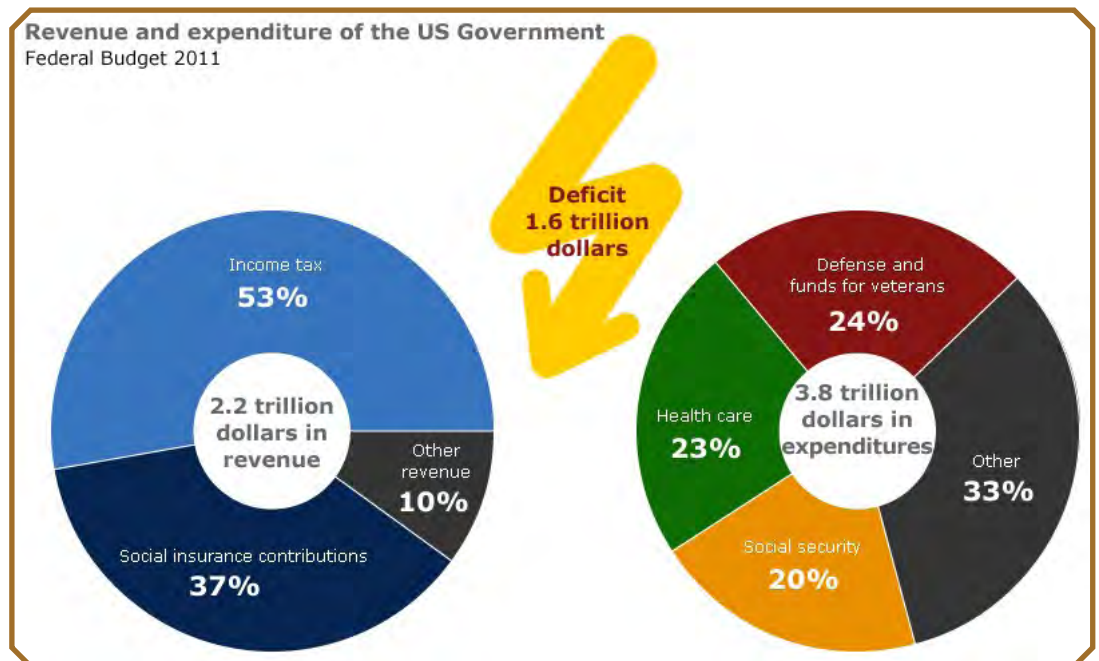
Something is sorely amiss here. One thing for certain, those two lines are coming together again at some point. Lower retail sales or higher consumer confidence? Place your bets...



CLICK TO ENLARGE

SOURCE: JOHN LOHMAN VIA ZEROHEDGE

## CHARTS THAT MAKE YOU GO *Hmmm...*

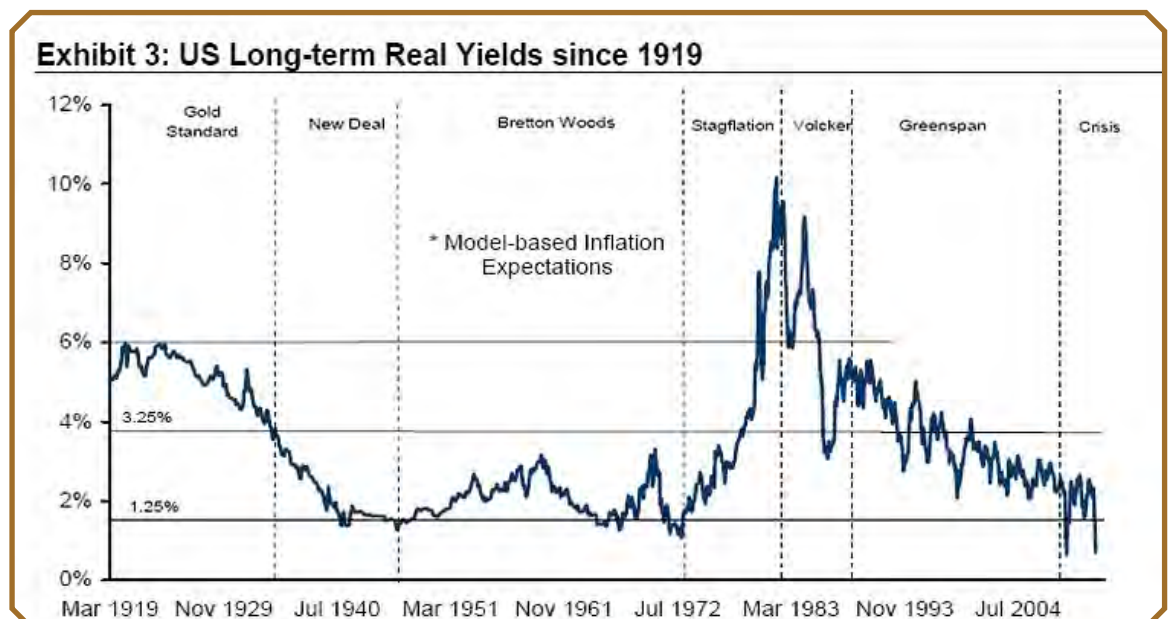


[CLICK TO ENLARGE](#)

SOURCE: US GOVERNMENT/DER SPIEGEL

**Above:** a graphical look at the gap between US revenues and expenditures that puts both the deficit and the chances of closing it into perspective.

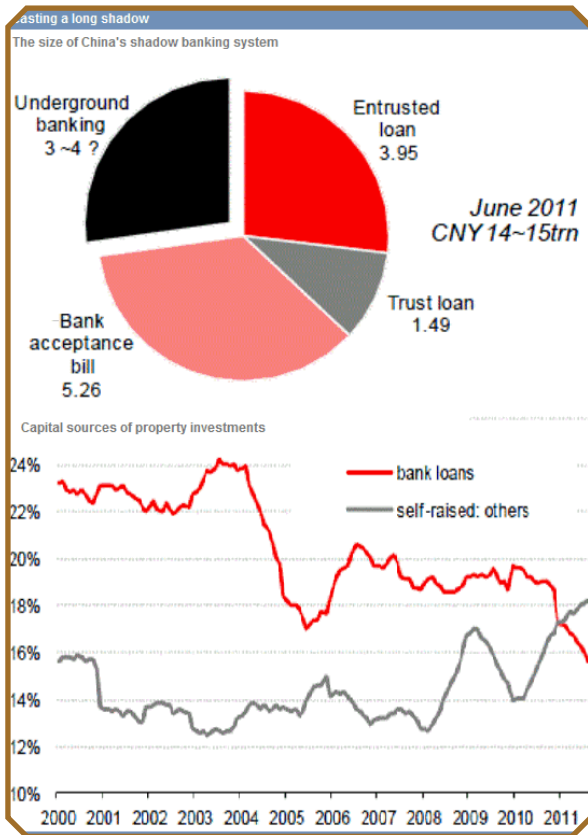
**Below:** A look at US interest rates going back to 1919. Doesn't seem to be much room for them to head lower from here to me...



[CLICK TO ENLARGE](#)

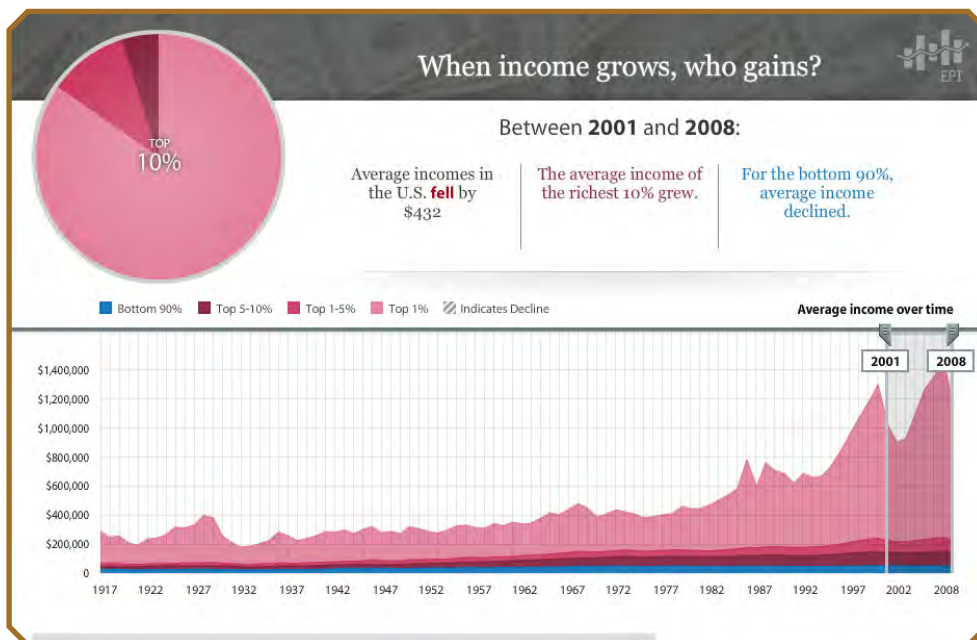
SOURCE: WSJ/REUTERS/CREDIT SUISSE

## CHARTS THAT MAKE YOU GO *Hmmm...*



SOURCE: SOC GEN/PBOC/CEIC

There are signs that fear is spreading to China's RMB14–15 trillion (\$US2.2–2.4 trillion) “shadow banking” sector or the growing number of financial institutions that play a critical role in lending business money, which Société Générale China economist Wei Yao meanwhile estimates could now be contributing to an larger share of property development funding than traditional bank loans, yet which does not enjoy government scrutiny, regulation or protection.



SOURCE: STATEOFWORKINGAMERICA

The State Of Working America takes a fascinating look at where in society the benefits of growing income accrue. Click on the map (left) to see a very cool interactive graphic that shows just how much times have changed in the last 30 years... (via [Barry Ritholtz](#))



[CLICK TO WATCH](#)

**J**ohn Greenwood, chief economist at Invesco Asset Management and architect of Hong Kong's fixed-exchange-rate system, talks about the outlook for the local currency's peg to the U.S. dollar. Greenwood also discusses China's yuan policy and Europe's debt problems.

**J**im Chanos has been one of the most high-visibility China bears for several years now and here he discusses the move this week by the Chinese SWF to buy shares in the big Chinese banks as well as the real estate market oh, and the fact that he's never been to China.....



[CLICK TO WATCH](#)



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**O**n the left is Martin Armstrong who, after last week's fascinating interview with Eric King is back again to discuss some lessons learned from the crash of 1987, what he sees happening from here, the potential for contagion and shares a few thoughts on gold.

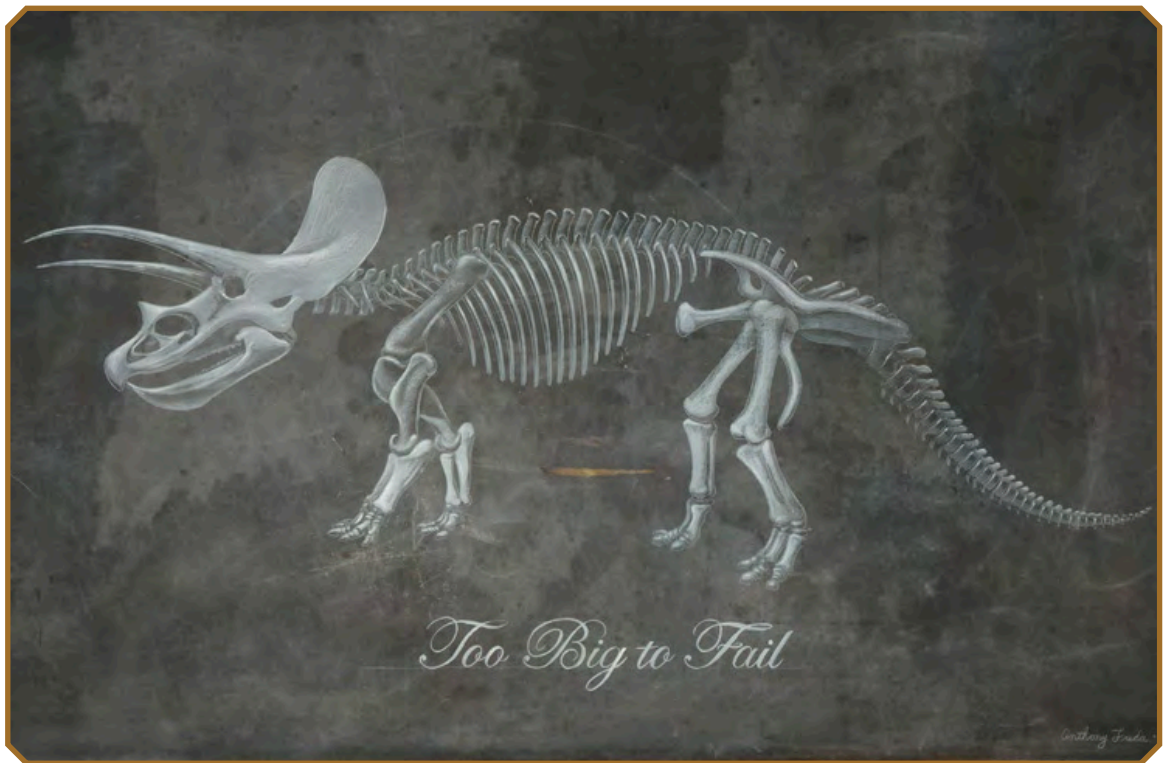
**O**n the right is your humble scribe. If you have time after listening to the other interviews on this page and would like to listen in as I discuss gold, gold stocks and the OWS movement with Al Korelin, just click on the mugshot...



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*and finally...*



SOURCE: ANTHONY FRED A (VIA BARRY RITHOLTZ)

*Hmmm...*

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COMMENTS

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