

THINGS THAT MAKE YOU GO *Hmmm...*

A walk around the fringes of finance



To Subscribe to Things That Make You Go Hmmm..... click [HERE](#)

“You think I’m an idiot, don’t you? But I’m not! Anyone can see with half an eye that there’s something wrong. And I have two eyes, and pretty good ones at that. Well, what is it?”

– BARON FRANKENSTEIN, *FRANKENSTEIN* (1931)

“They have acquired new and almost unlimited powers; they can command the thunders of heaven, mimic the earthquake, and even mock the invisible world with its own shadows”

– Victor Frankenstein, *Frankenstein* (chapter 3)

“Please! Remain in your seats, I beg you! We are not children here, we are scientists! I assure you there is nothing to fear!”

– Dr. Frederick Fronkensteen, *Young Frankenstein*



Today's Things That Make You Go Hmmm..... is brought to you by the number 3 and the letters B, A, S, E and L.

The number three is considered lucky in China because its pronunciation is similar to that of the word for 'alive' (sadly, the number four is similar to the word for 'death' so Rony Seikaly wouldn't have sold many replica shirts in Beijing even if the NBA HAD been popular in China prior to Yao Ming's arrival), while in

Vietnam, a photograph containing three people is said to be unlucky as the person standing in the middle will soon die.

During WWI, no soldier would take 'third light' - which was to be the third person to light a cigarette from the same match or lighter - as an enemy sniper would see the first light, take aim on the second and fire on the third and we are all familiar, no doubt, with the Three Blind Mice, The Three Bears and The Three Little Pigs.

Bad luck, it is said, always comes in threes.

Over the next several years, we will see the gradual phasing-in of the higher minimum capital requirements laid out in the third of the Basel Accords which were agreed upon by the Basel Committee on Banking Supervision - or, to give it its most familiar name - Basel III.

As one can deduce from its title, Basel III is the third set of capital requirements that the Basel Committee have produced dating back to 1988 - when the original Basel publication provided a solution to a problem that had occurred some 14 years prior when, in 1974, the Cologne-based Herstatt Bank was at the centre of a rather messy liquidation.

On June 26 of that fateful year, a group of banks had released Deutsche Marks to the Herstatt Bank in exchange for dollar payments deliverable in New York but, in a world where instantaneous transfers of billions of dollars was impossible, the time difference between Cologne and New York caused a delay in the payment of the dollars to the counterparty banks in the USA and, before those payments could be effected in New York, German regulators - ever the last bastion of efficiency - stepped in and liquidated Herstatt Bank.

From the ashes of the Herstatt debacle arose a powerful phoenix:

(Wikipedia): That day, a number of banks had released payment of Deutsche Marks (DEM) to Herstatt in Frankfurt in exchange for US Dollars (USD) that was to be delivered in New York. Because of time-zone differences, Herstatt ceased operations between the times of the respective payments. The counterparty banks did not receive their USD payments.

Responding to the cross-jurisdictional implications of the Herstatt debacle, the G-10 countries (the G-10 is actually eleven countries: Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States) and Luxembourg formed a standing committee under the auspices of the Bank for International Settlements (BIS). Called the Basel Committee on Banking Supervision, the committee comprises representatives from central banks and regulatory authorities. This type of settlement risk, in which one party in a foreign exchange trade pays out the currency it sold but does not receive the currency it bought, is sometimes called Herstatt risk.

THINGS THAT MAKE YOU GO *Hmmm...*

In 1988, the Basel Committee published a set of minimal capital requirements for banks which became known as the 1988 Basel Accord. It was enforced by law in the G-10 countries in 1992 and focused primarily on credit risk. Bank assets were grouped into five different levels, each of which carried a haircut according to the perceived risk in holding them. The risk weights were 0%, 10%, 20%, 50% and up to 100%. The Accord required banks to hold capital equal to 8% of their risk-weighted assets. Highly-rated sovereign debt was given a risk-weighting of 0% as it was, unquestionably, the form of credit risk least likely to default - in fact, given it received a 0% risk-weighting, it was, implicitly, guaranteed NOT to default. How quaint.

The creation of the first Credit Default Swaps (widely credited to JP Morgan in the wake of the Exxon Valdez disaster in 1994 when a team of J.P. Morgan bankers led by none other than Blythe Masters sold \$4.8bln of credit risk to the EBRD to lessen the reserves they needed to hold against a possible Exxon default) enabled banks to further reduce the amount of risk capital they had to hold to comply with The Basel Accord.

The principles established by the Basel Accord were adopted by over 100 countries although, as Wikipedia so deliciously points out:

The efficiency with which they are enforced varies, even within nations of the Group of Ten.

In 2004, the Committee published their second set of recommendations which once again, had lofty intentions:

(Wikipedia): The purpose of Basel II...is to create an international standard that banking regulators can use when creating regulations about how much capital banks need to put aside to guard against the types of financial and operational risks banks face while maintaining sufficient consistency so that this does not become a source of competitive inequality amongst internationally active banks. Advocates of Basel II believe that such an international standard can help protect the international financial system from the types of problems that might arise should a major bank or a series of banks collapse. In theory, Basel II attempted to accomplish this by setting up risk and capital management requirements designed to ensure that a bank holds capital reserves appropriate to the risk the bank exposes itself to through its lending and investment practices. Generally speaking, these rules mean that the greater risk to which the bank is exposed, the greater the amount of capital the bank needs to hold to safeguard its solvency and overall economic stability.

Seemed like a good idea at the time - but then so, presumably, did New Coke and the 8-track cassette. However, despite the chances of Basel II being successfully policed being as straightforward as a post-EU summit press conference, and with banks being the capricious creatures that they are, the principles set out within the Accord became obstacles over, below or around which routes needed to be found and that meant lobbyists; lots and lots of lobbyists (I believe the collective noun for such creatures is a brothel, but I stand to be corrected).

In September 2005, entirely of their own volition, the US OCC, the Federal Reserve Board, the FDIC and the OTS announced revised plans for the implementation of Basel II that would delay its implementation for US banks by 12 months.



THINGS THAT MAKE YOU GO *Hmmm...*

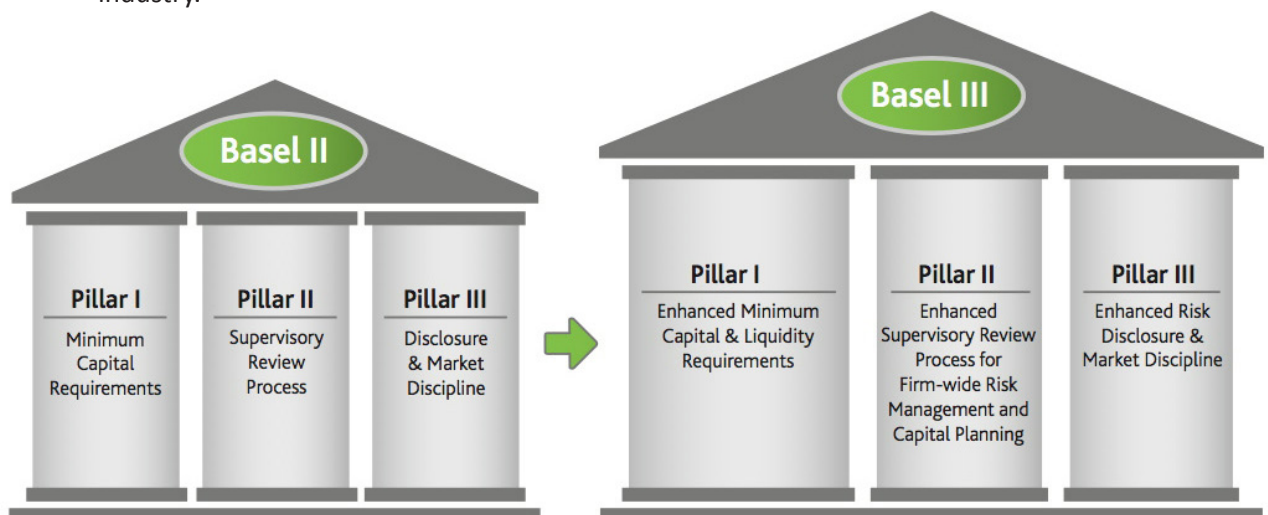
Further revisions followed in November 2005 and July 2006 until, in November 2007 the US OCC approved a final rule implementing the Basel II Capital Accord. The rule laid out regulatory and supervisory expectations for credit and operational risk. It arrived in the nick of time for the collapse of the 38:1 levered Bear Stearns in March of 2008.

In the wake of Bear Stearns' ignominious demise, a further update was issued in July 2008:

(Wikipedia): On July 16, 2008 the federal banking and thrift agencies (the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision) issued a final guidance outlining the supervisory review process for the banking institutions that are implementing the new advanced capital adequacy framework (known as Basel II). The final guidance, relating to the supervisory review, is aimed at helping banking institutions meet certain qualification requirements in the advanced approaches rule, which took effect on April 1, 2008.

Fortunately, this updated guidance was published BEFORE Lehman Brothers' 30:1 leverage caused its collapse in September of the same year.

Now we stand on the cusp of the implementation of the latest and greatest Basel Accord - Basel III. One can only hope that this part of the trilogy isn't to banking what the Godfather III was to the movie industry.



Basel III strengthens the three Basel II pillars, especially pillar 1 with enhanced minimum capital and liquidity requirements.

SOURCE: MOODY'S

A cursory glance at a graphical explanation of the differences between Basel II and Basel III by Moody's Analytics (above) shows taller, thicker pillars and the addition of several instances of the word 'enhanced' - all of which is a great comfort to me, personally.

Without delving too deeply into the entrails of the Basel III Accord, the main changes are:

Upward adjustments to the Tier 1 Capital Ratio (from 4% to 6%)

These will be implemented, of course, in stages with the ratio being set at 4.5% from 1 January 2013, 5.5% from 1 January 2014 and 6% from 1 January 2015

The establishment of a 2.5% Capital Conservation Buffer

This must be met exclusively with common equity which will be used to "absorb losses during periods of financial and economic stress"

Increase in the minimum Tier 1 common equity requirement

This will increase from 2% to 4.5% - again in stages. The ratio will be set at 3.5% from 1 January 2013, 4% from 1 January 2014 and 4.5% from 1 January 2015

The introduction of a Liquidity Coverage Ration (LCR)

To ensure that sufficient high quality liquid resources are available for one month survival in case of a stress scenario. This will be introduced 1 January 2015

The LCR, according to Linklaters:

...is designed to ensure that a bank has sufficient high quality unencumbered liquid assets to enable it to survive (i.e. to allow it to meet its cash commitments arising over) a short term (30 calendar day) period of significantly severe stress.

Again, a sound idea. But what exactly ARE those *high quality unencumbered liquid assets*? Well, amongst other things they include:

(a) Cash;

(b) Central bank reserves, to the extent that these reserves can be drawn down in times of stress;

(c) Marketable securities representing claims on or claims guaranteed by sovereigns, central banks, non-central government PSEs, the Bank for International Settlements, the International Monetary Fund, the European Commission, or multilateral development banks and satisfying all of the following conditions:

(i) Assigned a 0% risk-weight under the Basel II Standardised Approach;

(ii) Traded in large, deep and active repo or cash markets characterised by a low level of concentration;

(iii) Proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions; and

(iv) Not an obligation of a financial institution or any of its affiliated entities.

The Basel II Standardized Approach lays out the risk-weighting that must be assigned to different asset classes when calculating the respective liquidity/capital cushions:

Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Risk Weight	0%	20%	50%	100%	150%	100%

The risk-weighting on claims on the BIS, the IMF, the ECB, the EC and the Multilateral Development Banks are 0%.

To put this into perspective, bank holdings of the following EU countries' sovereign debt are given a 0% risk-weighting:

Germany, Austria, France, Finland, The Netherlands, Belgium, Spain and Slovenia.

Italian bonds are given a risk-weighting of 20%, Portugal 50% and Greek bonds - remember them? They're the ones that are NOT in default - are given a 150% risk-weighting.

THINGS THAT MAKE YOU GO *Hmmm...*



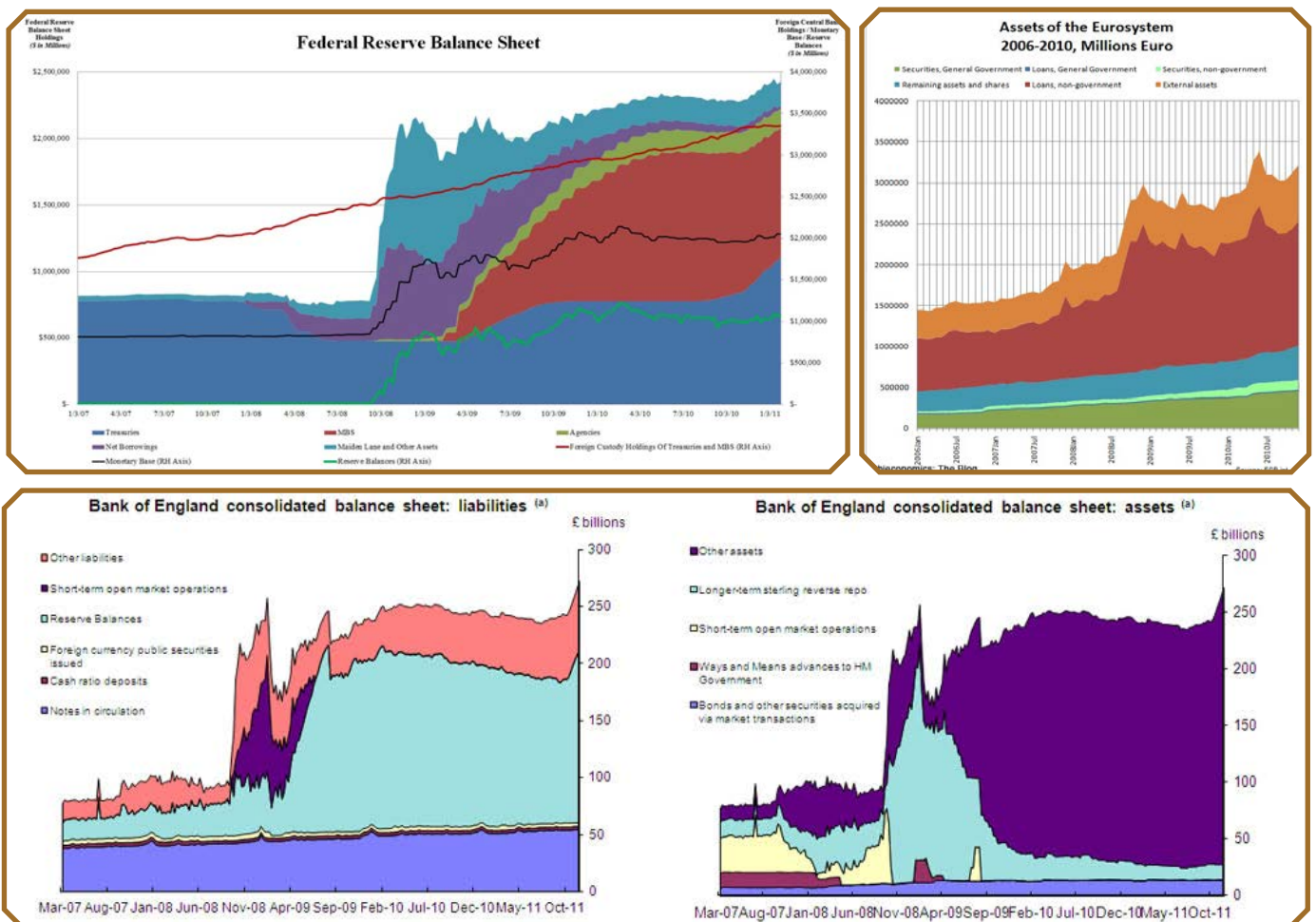
Basel III attempts to ~~force~~ encourage banks to hold larger percentages of government bonds on their balance sheets in order to shore up their capital bases and to provide a riskless safety net should they run into liquidity problems.

Thus far, holdings of Italian debt - with its 20% risk-weighting - have bankrupted MF Global in the space of a week (no 30-day cushion there, then) while the ECB SMP program has spent billions of euros accumulating ~~20% risk-weighted assets rapidly declining assets that everybody else wants to sell~~ high-grade Italian (and, latterly, Spanish) government bonds in a desperate attempt to stop the very assets that banks have been pushed into holding from bringing down the whole edifice.

The absurdity of the situation is striking.

After 2008, the world's major governments (in their infinite collective wisdom) transferred the most toxic assets, that threatened to bring down their countries' banking systems to their own balance sheets rather than suffer the sharp pain of bankruptcies throughout the global financial sector and the inevitable pain that would follow.

Now, barely three short years after Lehman Brothers' demise, central banks - their balance sheets horribly disfigured by the fiendish experiments they have been conducting on monetary policy (charts, below) - have themselves become monstrous figures; distorted and twisted into barely-recognisable



CLICK TO ENLARGE

SOURCE: CASEY RESEARCH / HJ ECONOMICS / BANK OF ENGLAND

THINGS THAT MAKE YOU GO *Hmmm...*

approximations of the institutions we have come to recognise over the decades as the guardians of monetary propriety.

Bankenstein's Monsters.

Amazingly enough, before the Financial Crisis, the Federal Reserve's balance sheet consisted of \$800 million worth of treasuries. Now? It's pushing \$3 billion - a large chunk of which is toxic mortgage debt - and, with only \$50 billion (give or take a billion or two) in capital, the Fed itself is leveraged approximately 54:1. I'm just saying.....

Governments the world over, need to raise hundreds of billions of dollars, euros, pounds and, in the case of Japan, trillions of yen, in order to simply maintain the status quo. They are swimming in debt and have little or no growth with which to organically fix their creaking debt dynamics, but there is a distinct shortage of demand for these governmental promises.

And so we go back to Basel III.

As we outlined earlier, banks will soon need to own more risk-free sovereign debt. In order to comply with the incoming regulations set out in Basel III and, at the top of the list of solid gold, guaranteed, risk-free investments the banks can make are the bonds of, amongst others, France, Austria, Belgium and Spain - the FABS.

Below, as you can see, the 2-year yields on the sovereign debt of the FABS is anything but fab and, would suggest that a 0% risk-weighting is, perhaps, a little generous.....



SOURCE: BLOOMBERG

So what happens now?

Well, on the basis that the very instruments banks are being herded into by Basel III as a means of preserving their capital bases are the same instruments that are currently causing billions of dollars of losses on bank balance sheets across the world, and, given that the European Central Bank has not only accepted billions of dollars of these instruments as collateral from the banks whose very existence the holding of these instruments have endangered, but has actively stepped into the secondary market and bought roughly €200 billion more of those same instruments as a means of keeping the instruments they and the banks already hold from imploding, I'd say we have ourselves a little problem.

The war of words currently being waged between Germany in one corner and the rest of the Euro-zone in the other over whether the ECB has to begin to monetize the cascading debt will soon reach its denouement.

In a week that saw the head of the Bundesbank, Jens Wiedmann flatly declare that moneyprinting was NOT an option:

"...the central bank cannot and should not solve the financial problems of states and banks"

"The economic costs of any form of monetary financing of public debts and deficits outweigh its benefits so clearly that it will not help to stabilise the current situation in any sustainable way,"

and Angela Merkel issue a stark warning to those awaiting the firing up of ECB helicopters:

"If politicians believe the ECB can solve the problem of the euro's weakness, then they're trying to convince themselves of something that won't happen."

we also had the new head of the ECB taking the heads of European governments to task for their lack of a cohesive plan and failure to fulfill promises made many months ago:

(UK Daily Telegraph): Mario Draghi has hit back at leaders expecting the European Central Bank to solve the debt crisis - demanding they deliver the bail-out fund they promised 18 months ago instead. In a fierce rebuttal of demands by leaders, including David Cameron, the head of the ECB insisted that austerity packages and "national economic policies" should be the first line of defence.

The leaders then should concentrate on delivering the "big bazooka" bail-out fund, the European Financial Stability Facility (EFSF) rather than looking to the ECB. "Where is the implementation of these long-standing decisions? We should not be waiting any longer," he demanded in a speech at the European Banking Congress.

But, still.

The ECB and the governments of Europe remain locked in a Mexican stand-off - each waiting for the other to blink. Sadly, only one of them blinking will have any effect. Governments have nowhere to go but towards austerity and this, in a period of slowing/no growth is clearly not a viable option in the long run, whilst the ECB can make a real difference to the current crisis by finding a way to turn on the printing presses and let the money flow begin.

The recent comments of, amongst others, Wiedmann, Merkel and Wolfgang Schauble are clearly designed to get their objections to any kind of EuroTARP well and truly on the public record before they are eventually left with no choice but to cave in (against their will, of course) to the 'printthriffs' - thus preserving their political legacy in the eyes of the German electorate.

But make no mistake - cave they will. As John Mauldin argues in another [excellent letter](#) this week:

I pointed out that the Eurozone must find at least €3 trillion (give or take) to pay for the sovereign debt "haircuts" and bank losses. Some argue it is only €2 trillion and others argue for €6 trillion. Whatever it is, it is such a large number that it cannot be found by borrowing or creating a special fund. The ONLY way to deal with it is to allow the ECB to print, essentially putting a floor underneath Eurozone bonds, especially those of Italy and Spain, both of which governments are too big to save by conventional means.

...First, Sarkozy is essentially arguing that the ECB must be allowed to deal with the bank problems by supplying whatever funds are needed. This is of course his position, as French banks are so insolvent that it is not possible for France to bail them out and remain an AAA-rated country (more on that later). If France loses its AAA rating, the EFSF debt rating is essentially meaningless and the fund will be downgraded. End of game.

If the ECB does not backstop the banks and Italian and Spanish debt, the Eurozone will fall into a deflationary debt spiral. The large majority of European banks (even in core countries) are basically insolvent. They simply hold too much sovereign debt of all types, at leverages approaching 40 to 1. They have this debt on their books at face value. Even a write-down of 10% wipes out most of their capital. It would be an unmitigated disaster. Look at Dexia. Only a few weeks before it was nationalized by the French and Belgians, the regulators were telling us the bank was well-financed. And then Bang! In a matter of a few weeks, it had to be taken over by the governments.

Note please that these are the same regulators that said European banks only needed about €3 billion this summer, and recently that has been raised to €100 billion. They have no clue what mark to market means, but the market does. Bank financing dries up quickly and there is a default moment. Maybe the only real purpose of European bank regulators is to make US regulators look conservative and prudent.

Allowing banks and sovereign governments to default at the scale we are talking about means Europe would be plunged into a depression...

The perversity of the situation is that, by announcing they *would* stand behind Italian and Spanish debt (as well as that of other European countries) in unlimited amounts, the ECB/EFSSF would provide the guarantee required to lower rates in those countries both significantly and instantaneously (though not permanently, but this is an exercise in buying time - another commodity, like gold, that cannot be conjured out of thin air). Their refusal to offer the blanket protection of a monetary backstop for Eurozone sovereign debt is actually forcing them to spend a lot more money than the supposedly more profligate alternative.

But then, this IS Europe we're talking about.



This week's edition of Things That Make You Go Hmmm..... begins in China, or, to be more precise, Hong Kong, where the finance professor of Hong Kong University gives a rather more candid appraisal of China's wellbeing than he perhaps would have done had he thought he wasn't being recorded, and moves abroad as we find out just how popular the search for overseas passports has become for wealthy Chinese citizens.

Naturally, Europe once again muscles its way to the front of the line as we hear about strange liquidity

THINGS THAT MAKE YOU GO *Hmmm...*

providers to Italian banks, go jogging with a former German Foreign Minister in search of a way the EU can emerge from the crisis enveloping it, hear some strong words from Mario Draghi, read some extremely concerning thoughts from Bruce Krasting on capital controls as Greece tries to bring fleeing capital home and, for those amongst you who STILL don't understand why Europe is utterly doomed, we hear the sad story of 21 EU-funded scientists whose findings could lead to a 2-year prison sentence for anyone making a certain claim about drinking water.

Gregor looks at oil and natural gas prices, we read the disgraceful story of insider trading in the corridors of Washington power, the WGC release their Q3 gold report (compulsory reading for all you goldbugs out there) and the wonderful Dylan Grice joins the call for ECB moneyprinting.

Lastly, with Spain going to the polls today to choose a successor to Señor Zapatero, we take a look at the nightmare situation facing the new Spanish PM

(Incidentally, it was an incoming government in Greece who, in kitchen-sinking the 'creative' accounting of its predecessors, started the Greek domino toppling all those months ago so pay VERY close attention to Spain this week)

In our charts section we look at a huge wedge on the Shanghai stock exchange, check out Bill Miller's performance, see how GLD has added a huge amount of gold even as John Paulson exits look at the web of interconnectivity in Europe courtesy of the BBC and Barry Ritholtz reminds us that there is the little matter of next week's Supercommittee that we need to focus on. Oh, and those EFSF bonds that were going to stabilize things in Europe? Maybe not so much.

Nigel Farage is back and as spiky as ever, Bill Laggner talks Europe with Jim Puplava and Kyle Bass gives a great interview to the BBC (despite being saddled with a truly obnoxious interviewer).

By way of housekeeping, I will be in Sydney next week so there will be no Things That Make You Go Hmmm..... until the weekend of December 3/4

U^{ntil} then...

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

Grant

www.vulpesinvest.com

Contents

20 November 2011

Chinese TV Host Says Regime Nearly Bankrupt
Yuan Drain As China's Rich Move West
Oil Soars And Natural Gas Withers: But The Energy Singularity Is Not Forthcoming
Mario Draghi Hits Out As ECB Pressure Grows
Crony Capitalism Exposed
WGC Gold Demand Trends Third Quarter 2011
EU Bans Claim That Water Can Prevent Dehydration
How The EU Can Emerge From The Ashes
Socgen's Grice Joins Crowded ECB-Print-Demanders Citing 'He Who Devalues First, Wins'
Banks In Italy Find An Unusual Liquidity Lifeline
Mañana Is Too Late
On Capital Flight And Forced Repatriation
Charts That Make You Go Hmmm.....
Words That Make You Go Hmmm.....
And Finally.....

The Gonnies, Gonnies Banks

#	Bank	Assets (\$m)	Deposits (\$m)	Cost (\$m)
89	Polk County Bank, Johnston, IA	91.6	82.0	12.0
90	Central Progressive Bank, Lacombe, LA	383.1	347.7	58.1
Total Cost to FDIC Deposit Insurance Fund				70.1

China's economy has a reputation for being strong and prosperous, but according to a well-known Chinese television personality the country's Gross Domestic Product is going in reverse.

Larry Lang, chair professor of Finance at the Chinese University of Hong Kong, said in a lecture that he didn't think was being recorded that the Chinese regime is in a serious economic crisis—on the brink of bankruptcy. In his memorable formulation: every province in China is Greece.

The restrictions Lang placed on the Oct. 22 speech in Shenyang City, in northern China's Liaoning Province, included no audio or video recording, and no media. He can be heard saying that people should not to post his speech online, or "everyone will look bad," in the audio that is now on Youtube.

In the unusual, closed-door lecture, Lang gave a frank analysis of the Chinese economy and the censorship that is placed on intellectuals and public figures. "What I'm about to say is all true. But under this system, we are not allowed to speak the truth," he said.

“... Once the “economic tsunami” starts, the regime will lose credibility and China will become the poorest country in the world

Despite Lang's polished appearance on his high-profile TV shows, he said: "Don't think that we are living in a peaceful time now. Actually the media cannot report anything at all. Those of us who do TV shows are so miserable and frustrated, because we cannot do any

programs. As long as something is related to the government, we cannot report about it."

He said that the regime doesn't listen to experts, and that Party officials are insufferably arrogant. "If you don't agree with him, he thinks you are against him," he said.

Lang's assessment that the regime is bankrupt was based on five conjectures.

Firstly, that the regime's debt sits at about 36 trillion yuan (US\$5.68 trillion). This calculation is arrived at by adding up Chinese local government debt (between 16 trillion and 19.5 trillion yuan, or US\$2.5 trillion and US\$3 trillion), and the debt owed by state-owned enterprises (another 16 trillion, he said). But with interest of two trillion per year, he thinks things will unravel quickly.

Secondly, that the regime's officially published inflation rate of 6.2 percent is fabricated. The real inflation rate is 16 percent, according to Lang.

Thirdly, that there is serious excess capacity in the economy, and that private consumption is only 30 percent of economic activity. Lang said that beginning this July, the Purchasing Managers Index, a measure of the manufacturing industry, plunged to a new low of 50.7. This is an indication, in his view, that China's economy is in recession.

Fourthly, that the regime's officially published GDP of 9 percent is also fabricated. According to Lang's data, China's GDP has decreased 10 percent. He said that the bloated figures come from the dramatic increase in real estate development each year (accounting for up to 70 percent of GDP in 2010).

Fifthly, that taxes are too high. Last year, the taxes on Chinese businesses (including direct and indirect taxes) were at 70 percent of earnings. The individual tax rate sits at 81.6 percent, Lang said.

Once the "economic tsunami" starts, the regime will lose credibility and China will become the poorest country in the world, Lang said.

Several commentators have expressed broad agreement with Lang's analysis.

★ ★ ★ NDTV / [LINK](#)

Sherry Wang misses many things about China. It's taken time to get used to western food, and day-to-day communication is harder; even requesting goods in a convenience store can be a struggle.

But the wealthy entrepreneur has no regrets about her decision to emigrate to North America two years ago.

The education system "makes my son happy every day", she said, by encouraging personal development, in contrast to Chinese schools' rigid focus on grades. And the family no longer fret about the safety of their food.

Wang's choice is part of a much broader trend: China's rich appear to be increasingly keen to go west. Almost half of China's millionaires are considering moving abroad, according to a survey released recently by Hurun – best known for publishing a Chinese rich list – and the Bank of China.

“...some were nervous about stability, particularly before the transition of power to a new generation of leaders next year.

The report found that 46% of the 980 people surveyed had thought about emigrating; 14% had done so already or applied to do so. Most wanted a better education for their children. The findings chimed with research by China Merchants Bank and consultants Bain this spring which suggested that more than a quarter of those with more than 100m yuan (about £10m) had moved abroad and almost half were considering it.

Many sought immigrant investor status, which grants residence rights to those making large investments.

"After establishing a decent economic foundation, of course people tend to move to places where a better quality of life is available," Wang said.

Businessman Eric Wen, whose family are considering a move from Shanghai to the US or Canada, agreed: "The biggest motivation is life quality and education for my children. The environment, especially air quality, is much better in these countries," he said.

But Wang acknowledged there was another motive, too: "My husband was worried that China would suffer political turmoil some day and it is safer here."

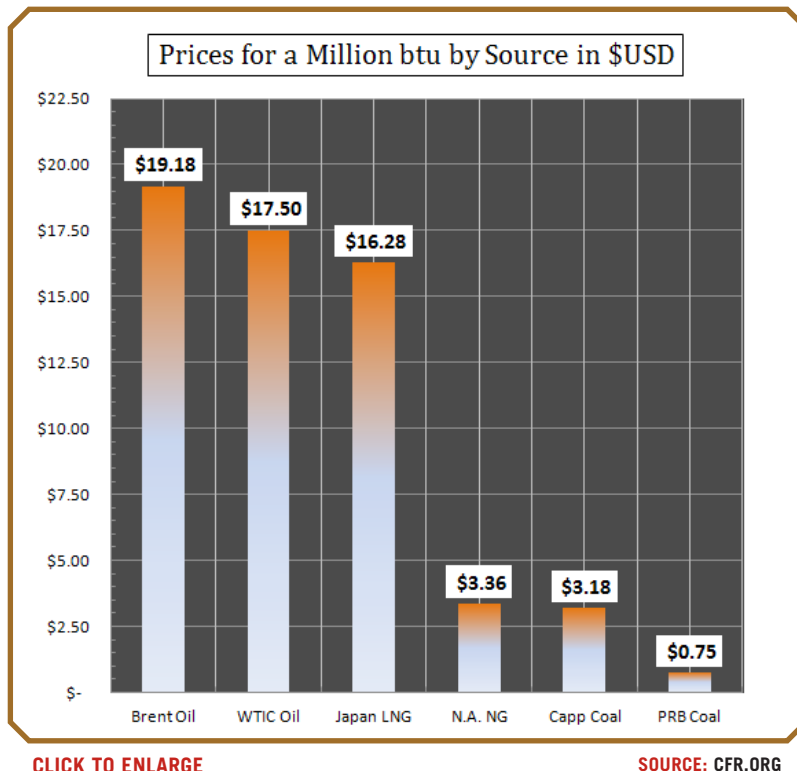
That instinct – and the resentment that rich people can attract – makes the subject of emigration sensitive for many. Wang asked that her Chinese name, and her new home, should not be disclosed.

Rupert Hoogewerf, of Hurun, acknowledged that some were nervous about stability, particularly before the transition of power to a new generation of leaders next year. But he suggested that people seemed to be seeking an "insurance policy", pointing out that few of the Chinese wealthy wanted to trade in their passports.

While some think another nationality may help protect "ill-gotten" wealth, most seek residency rights. "There is concern about social and economic and potentially political unrest – but the growth far outweighs the potential risk. This is the fastest-growing economy [they could work in] ... and this is the place they know best," Hoogewerf said.

★ ★ ★ UK GUARDIAN / [LINK](#)

If you firmly believe higher oil prices will drive energy transition, and the adoption of alternative sources, then do (by all means) feel excited today. The price of West Texas Intermediate crude oil,



which has sold for as much as a 25% discount to Brent oil over the past 9 months, has been slowly filling that gap recently. And, with the announcement today that a major pipeline would further relieve the surplus of WTI at Cushing (taking it away to the Gulf Coast), the discount has closed further. As of this morning, WTI soared to \$102.00 as Brent has fallen closer to \$110.00. Accordingly, the full impact of the higher global price of oil is now about to be visited upon North America. Is that bad news, or good news?

If you are a signatory to the new Natural Gas Revolution, you probably believe the extraordinary discount of North American NG to world oil prices suggests our economy's on the verge of a grand switch, from oil to natural gas. Greentech investors, and solar and wind industries will also once again write a very happy ending, to their own stories. However, I am less convinced that any fast transition is imminent.

As much as I believe in market forces I'm also a believer in market failures. And, as much as I believe in the power of price I'm also a believer in policy failure. But most of all, I'm a believer in the stranded infrastructure that now composes our landscape, most of which was built after World War II. This vast stock of infrastructure is resistant to a transition that will either be easy, cheap, or rapid. Instead, as with past energy transitions, the US faces a much slower migration to alternative sources as it struggles to shed oil from its economy.

My colleague and friend, Chris Nelder, wrote specifically about this problem recently in his must-read piece, *When should we pursue energy transition?* He makes the important point that the power of price and the miracle of free markets will not sort this problem out. Why? Mostly because the energy surplus of the last 200 years has always "worked it out" for us. That won't happen this time around.

★ ★ ★ GREGOR / [LINK](#)

Mario Draghi has hit back at leaders expecting the European Central Bank to solve the debt crisis - demanding they deliver the bail-out fund they promised 18 months ago instead. In a fierce rebuttal of demands by leaders, including David Cameron, the head of the ECB insisted that austerity packages and "national economic policies" should be the first line of defence.

The leaders then should concentrate on delivering the "big bazooka" bail-out fund, the European Financial Stability Facility (EFSF) rather than looking to the ECB. "Where is the implementation of these long-standing decisions? We should not be waiting any longer," he demanded in a speech at the European Banking Congress.

Mr Draghi, who is in his third week at the helm of the ECB, insisted the bank's "contribution" would be defending the credibility of the eurozone's monetary policy by "anchoring inflation expectations."

He said: "This is the major contribution we can make in support of sustainable growth, employment creation and financial stability. And we are making this contribution in full independence."

Political and financial leaders have this week urged for the ECB to be used to back the euro after Spain was dragged to frontline of the debt crisis and France, Belgium and Austria were also embroiled.

This weekend the pressure is on Mariano Rajoy, who is likely to be elected prime minister of Spain in elections tomorrow. The leader of the People's Party begged markets to give him "more than half an hour" and not to punish Spain while he scrambles to get a credible reform programme together.

Spain's borrowing costs soared this week, following Italian bond yields to the brink of the 7pc "bail-out zone." On Friday Spanish 10-year bonds hit 6.76pc, above Italy's which were at 6.67pc, helped by ECB intervention.

At a testy summit with Angela Merkel in Germany, Mr Cameron avoided answering a question about whether the ECB should be the lender of last resort.

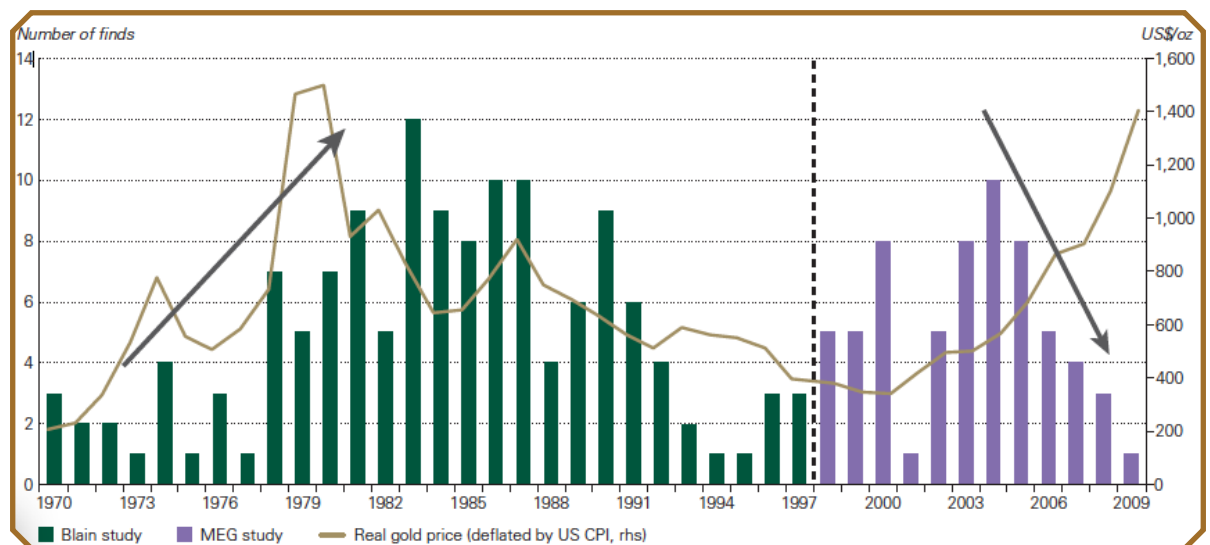
The prime minister asked if "bazooker" in German was "superwaffe", in joke that failed to amuse Ms Merkel, but otherwise said he was "confident" the eurozone countries would "stand by and defend" their currency.

Ms Merkel retorted: "The British say we have to do our utmost, to use all force.... but one should not pretend to be more powerful than one is because the markets will know and find this out."

★ ★ ★ UK DAILY TELEGRAPH / [LINK](#)

Insider trading is illegal — except for members of Congress. A Wall Street executive who buys or sells stock based on insider information would face a Securities and Exchange Commission investigation and quite possibly a federal prosecutor. But senators and congressmen are free to legally trade stock based on nonpublic information they have obtained through their official positions as elected officials — and they do so on a regular basis.

On Sunday night, CBS News' "60 Minutes" looked into this form of "lawful graft." The "60 Minutes" story exposed, among others, then-House Speaker Nancy Pelosi for participating in a lucrative initial public offering from Visa in 2008 that was not available to the general public, just as a troublesome



SOURCE: WGC GOLD REPORT

piece of legislation that would have hurt credit card companies began making its way through the House (the bill never made it to the floor). And it showed how during the 2008 financial crisis, Rep. Spencer Bachus (R-Ala.) — then-ranking Republican on the House Financial Services Committee — aggressively bought stock options based on apocalyptic briefings he had received the day before from Federal Reserve Chairman Ben Bernanke and Treasury Secretary Hank Paulson.

The report was based on an explosive new book by Peter Schweizer that will hit stores on Tuesday. It's called ["Throw Them All Out: How Politicians and Their Friends Get Rich off Insider Stock Tips, Land Deals, and Cronyism That Would Send the Rest of Us to Prison."](#) (Full disclosure: Schweizer is a close friend, a former White House colleague and my business partner in a speechwriting firm, Oval Office Writers.)

"... The "60 Minutes" story exposed, among others, then-House Speaker Nancy Pelosi for participating in a lucrative initial public offering from Visa in 2008 that was not available to the general public..."

The "60 Minutes" story only scratches the surface of what Schweizer has uncovered. For example, Bachus was not the only member of Congress trading on nonpublic information during the financial crisis. On Sept. 16, 2008, Schweizer writes, Paulson and Bernanke held a "terrifying" closed-door meeting

with congressional leaders. "The next day Congressman Jim Moran, Democrat of Virginia, a member of the Appropriations Committee, dumped his shares in ninety different companies ... [his] most active trading day of the year."

Rep. Shelley Capito (R-W.Va.) and her husband "dumped between \$100,000 and \$250,000 in Citigroup stock the day after the briefing," Schweizer writes, and "at least ten U.S. senators, including John Kerry, Sheldon Whitehouse, and Dick Durbin, traded stock or mutual funds related to the financial industry the following day." Durbin, Schweizer says, "attended that September 16 briefing with Paulson and Bernanke. He sold off \$73,715 in stock funds the next day. Following the next terrifying closed-door briefing, on September 18, he dumped another \$42,000 in stock. By doing so, Durbin joined some colleagues in saving themselves from the sizable losses that less-connected investors would experience." Some members even made gains on their trades, at a time when ordinary Americans without insider knowledge were seeing their life savings evaporate.

★ ★ ★ WASHINGTON POST / [LINK](#)

The gold price surged throughout July and August, reaching a record US\$1,895.00/oz on the London PM fix on 5 and 6 September, and even higher levels on intra-day trading. Gold then staged a fairly deep correction from this level, before stabilising during the closing days of the quarter and subsequently establishing a base around US\$1,600-1,650/oz.

Despite this sharp pull-back, gold still outperformed most other assets, generating solid returns on both a quarterly and year-to-date basis. By the end of September, gold had delivered gains of 8% over the quarter and 15% over the year-to-date.

The quarterly average price of US\$1,702.12 was 39% above the Q3 2010 average of US\$1,226.75 and 13% above the second quarter average.

The price rise was partly a function of, and partly a reason for, the strong upsurge in global investment demand. Markets were buffeted by the worsening crisis in Europe, a shock US debt downgrade and deteriorating confidence levels among consumers and businesses. Equity and credit markets suffered the consequences, and gold was increasingly a beneficiary as investors recognised its unique attributes of risk reduction and security, with the additional benefit of positive returns. In Middle Eastern

and Asian markets primarily, the rising price reaffirmed bullish expectations and prompted an upward revision of target prices among the investment community.

The increase in investment demand during the third quarter was notable for its widespread geographical distribution. Virtually all markets saw strong double-digit growth in demand for gold bars and coins, with only three countries, India, Japan and the US, experiencing a year-on-year contraction. These growth rates are all the more remarkable when considering the substantial bout of profit-taking which accompanied the price correction in September. Western investors were attracted to gold's insurance-like properties, given the worrying developments in the euro area. Meanwhile, investors in Eastern markets focused on positive price expectations for gold as well as its inflation-hedging properties (inflation levels remained elevated in a number of these markets).

Activity among central banks continued to fulfil our expectations of further purchases in Q3. In fact, net buying accelerated notably during the quarter – totalling 148.4 tonnes – as the issues surrounding the creditworthiness of western governments' debt seeped into the official sector. A number of banks continued their well-publicised programmes of buying, while a slew of new entrants emerged wishing to bolster their gold holdings in order to diversify their reserves. We see this trend continuing into 2012. (Thanks Tom D)

★ ★ ★ WGC GOLD REPORT / [DOWNLOAD](#)

Brussels bureaucrats were ridiculed yesterday after banning drink manufacturers from claiming that water can prevent dehydration.

EU officials concluded that, following a three-year investigation, there was no evidence to prove the previously undisputed fact.

Producers of bottled water are now forbidden by law from making the claim and will face a two-year jail sentence if they defy the edict, which comes into force in the UK next month.

Last night, critics claimed the EU was at odds with both science and common sense. Conservative MEP Roger Helmer said: "This is stupidity writ large.

"The euro is burning, the EU is falling apart and yet here they are: highly-paid, highly-pensioned officials worrying about the obvious qualities of water and trying to deny us the right to say what is patently true.

“... “The euro is burning, the EU is falling apart and yet here they are: highly-paid, highly-pensioned officials worrying about the obvious qualities of water

“If ever there were an episode which demonstrates the folly of the great European project then this is it.”

NHS health guidelines state clearly that drinking water helps avoid dehydration, and that Britons should drink at least 1.2 litres per day.

The Department for Health disputed the wisdom of the new law. A spokesman said: “Of course water hydrates. While we support the EU in preventing false claims about products, we need to exercise common sense as far as possible.”

German professors Dr Andreas Hahn and Dr Moritz Hagenmeyer, who advise food manufacturers on how to advertise their products, asked the European Commission if the claim could be made on labels.

They compiled what they assumed was an uncontroversial statement in order to test new laws which allow products to claim they can reduce the risk of disease, subject to EU approval.

They applied for the right to state that “regular consumption of significant amounts of water can reduce the risk of development of dehydration” as well as preventing a decrease in performance.

However, last February, the European Food Standards Authority (EFSA) refused to approve the statement.

A meeting of 21 scientists in Parma, Italy, concluded that reduced water content in the body was a symptom of dehydration and not something that drinking water could subsequently control.

★ ★ ★ UK DAILY TELEGRAPH / [LINK](#)

The jogger is undeterred by the wet, foggy weather in November. Once again, Joschka Fischer, the former German foreign minister and eminence grise of the Green Party, has taken to running regularly through the quiet neighborhoods of Berlin’s Grunewald district. It is the kind of exercise, he says, which gives him time to think.

“While I was running,” he says, it occurred to him “how things could work in Europe.”

To stabilize the continent in crisis Fischer, an avid European, wants to see a resolute political body consisting of the leaders of euro-zone countries. They should, he believes, be outfitted with far-reaching authority and granted sufficient power by their parliaments back home.

Fischer is thinking about a rescue plan. Not just a rescue plan for the banks, for Italy or the euro, but for everything. He envisions a fire brigade of European Union government officials, and sees it as an “avant-garde of the United States of Europe.”

“... Europe can only be saved if it is completely reinvented. The financial crisis is the turning point in the history of European unification.

It is, in other words, time to stop complaining. Europe can only be saved if it is completely reinvented. The financial crisis is the turning point in the history of European unification.

The old EU is finished. The 27-member bloc has never been as unpopular as it is today. Citizens have taken note that the massive bureaucracy in Brussels clearly lacks the power to master the crisis spreading through the currency union. It has likewise become apparent that the national governments they have elected are in the process of dismantling the historic project of European unification. After all, it isn’t the European Council, the European Commission or the European Parliament that the world is relying on to pull Europe out of crisis. It is Angela Merkel.

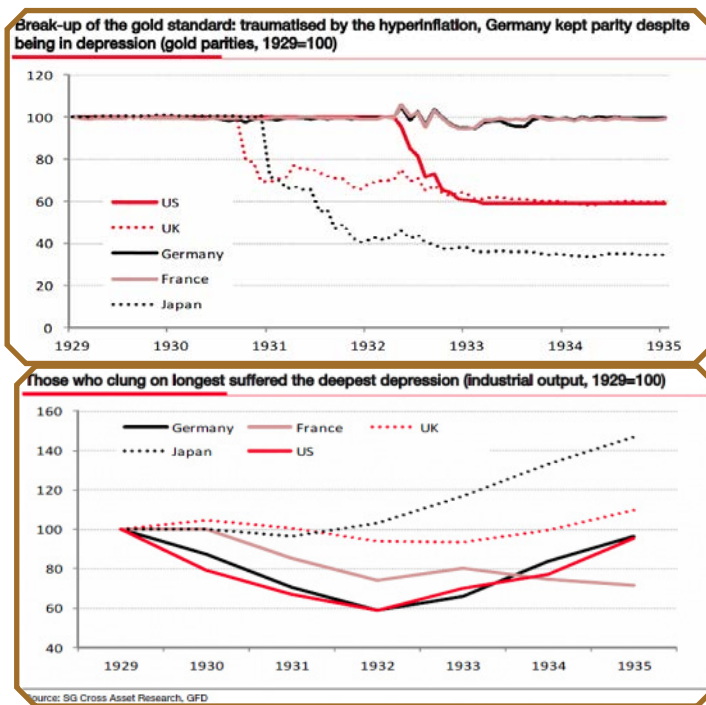
The German chancellor and French President Nicolas Sarkozy more or less singlehandedly implemented the bailout plan for Greece, brought down the government in Athens and placed ailing member state Italy under international supervision. The words “History is being made in Cannes” were emblazoned on posters in the city during the G-20 summit there in early November. But that’s new history. Old Europe, that construct of unity housed in imposing buildings in Brussels, that visionary collection of ideas about peace, freedom and prosperity, the Europe of big words and impenetrable treaties, the Babylonian monster that spits out tons of paper in 23 languages every day, meddles in everything and tries to spoon-feed its citizen. That Europe no longer exists.

Citizens in Athens and Brussels, Madrid and Berlin are taking to the streets of the tottering continent to protest against their politicians. Has Europe turned into a nightmare?

It is time to stop complaining. The new Europe will be a dream, not a nightmare.

★ ★ ★ DER SPIEGEL / [LINK](#)

Angela Merkel recently told Greece to make its mind up. But Germany should do the same. What's more important: its hard money principles, or the euro? My guess is we'll see a compromise on principle. And if we don't, I think we'll see a coup inside the ECB. Depending on the magnitude of the market riot which causes either of these events, we might go maximum bullish. In the meantime, valuations are selectively attractive. So we're still minimum bullish.



CLICK TO ENLARGE

SOURCE: SOC GEN

A widely accepted truth is that the horrors of the Third Reich were caused by the 1923 hyperinflation. Indeed, it is a part of modern Germany's founding myth. But while Hitler's first attempted power grab occurred in Bavaria at the peak of the hyperinflation ' the November 1923 "Beerhall Putsch" ' by the late 1920s the Nazis were little more than one of the larger fringe groups whose best days were judged to be behind it.

But as the world economy collapsed in the early 1930s the gold standard broke up. Successive countries chose to devalue their currencies and inflate their way out of painful deleveraging (chart below). Germany was the exception. Haunted by von Havenstein's ghost, it fatefully chose to bear instead the brunt of gold standard deflation, experiencing a depression arguably greater even than America's. It was then that something broke in Germany's collective psyche. With resurgent Nazi support, Hitler won power in 1933, his rise facilitated not only by the 1923 inflation, but by the subsequent fear of inflation.

The following charts tell the story. The first shows how the gold standard broke up during the Great Depression. The UK was first to devalue, quickly followed by Japan. FDR devalued the dollar in 1933.

These exchange rate devaluations and the domestic reflation they enabled were instrumental in Japan and Britain avoiding deep depressions. But the US and Germany, who hung on for longer, suffered depressions of catastrophic magnitude...

A couple of weeks ago Merkel and Sarkozy bluntly asked Papandreou whether or not Greece wanted to remain in the euro. "Make your mind up" she said. But it's now time for the Germans to conduct some introspection of their own. They should make their mind up. What's more important: the euro or their hard money principles?

My guess is it's the euro.

★ ★ ★ DYLAN GRICE (VIA ZEROHEDGE) / [LINK](#)

Central banks made their largest purchases of gold in decades in the third quarter as a sharp drop in prices in September spurred buying to diversify reserves.

The scale of the purchases at 148.4 tonnes on a net basis was far bigger than previously disclosed and puts central banks on track to buy more gold than at any time since the collapse of the Bretton Woods

system 40 years ago, the last time the value of the dollar was linked to gold.

Analysts said the buying, led by emerging market central banks intent on diversifying their growing foreign exchange reserves, helped explain gold's rebound from a low of \$1,534 a troy in September as large hedge funds such as Paulson & Co were forced to sell some gold to cover losses elsewhere.

"Central bank buying tends to follow a different heartbeat than pure investment purchases of gold," said Marcus Grubb, head of investment at the World Gold Council, a lobby group for the gold industry. "It's often based on targets set earlier in the year on gold as a proportion of foreign exchange reserves."...

The WGC, which published the purchase data, declined to identify the central banks behind the majority of the buying, saying only that "a slew of new entrants emerged wishing to bolster gold holdings". The countries that have publicly disclosed their purchases include Thailand, Russia and Bolivia.

“... GFMS last month said central bank purchases were likely to be in excess of 400 tonnes and could reach 500 tonnes, an upward revision from its September forecast of 336 tonnes.

Central banks are one of the most important drivers of the gold market but disclose few details about the changes in their bullion reserves. As a group, they became net buyers of gold last year after two decades of heavy selling – a reversal that has helped propel the price of bullion to a high of \$1,920.30 a troy ounce, up 600 per cent in a decade.

The purchase of 148.4 tonnes in July-September is the largest since GFMS, the consultancy which produces the data underlying the WGC reports, began compiling quarterly numbers in 2002. Before then, the last time central banks were net buyers of gold was in 1988 when they bought 180 tonnes.

Mr Grubb said the majority of buying took place in September after prices fell sharply from record highs to a low for the month of \$1,534. It coincided with growing international tensions over the dollar after a dispute in Washington about raising the US debt ceiling.

Mr Grubb predicted that central bank gold buying for the full year could reach 450 tonnes, implying a purchases of a further 90 tonnes in the fourth quarter.

GFMS last month said central bank purchases were likely to be in excess of 400 tonnes and could reach 500 tonnes, an upward revision from its September forecast of 336 tonnes.

★ ★ ★ FT / [LINK](#)

The London Stock Exchange is becoming the lender of last resort for many banks in Italy as concerns over the country's debt levels squeeze liquidity out of the Italian financial market.

With cash increasingly hard to come by, Italy's banks are turning to CC&G, the exchange's Italian clearinghouse, for short-term lending. That includes some of the country's largest financial institutions, including Unicredit and Mediobanca, according to a person close to the situation.

While just two banks received short-term capital from CC&G in 2009, that number has now risen to 15 — half of them Italian and the rest European financial institutions that trade in the country.

Under terms of the deals, the clearinghouse, which acts as a middleman to guarantee trades between financial parties, is offering money to both Italian and European banks with a presence in Italy for up to three days.

The money, which comes from collateral that traders must put up to complete financial transactions,

is deposited with the banks to cover shortfalls in liquidity. CC&G earns a profit by charging banks interest on the money that they borrow.

Previously, banks had used the so-called repo market, where banks lend capital to each other on a short-term basis, to meet their financing requirements. But fears about Italy's ability to repay its debts has pushed up borrowing costs and reduced the ability of banks to access that market.

A spokesman for the exchange said the company was in close discussions with the Italian central bank about any potential problems in the country's financial sector, and used stringent risk management to decide whether to give banks access to capital.

CC&G also doesn't technically lend money to banks, but instead deposits the cash with them on a short-term basis. Under Italian law, this distinction makes CC&G a depositor with the banks, and places it ahead of other creditors looking to get their money back if any financial institution should fail.

The legal distinction may still leave CC&G exposed if a lender defaults. And analysts question the sustainability of lending to struggling banks. That's particularly true as the collateral offered to institutions as short-term financing is often provided by the same bank's separate trading operations.

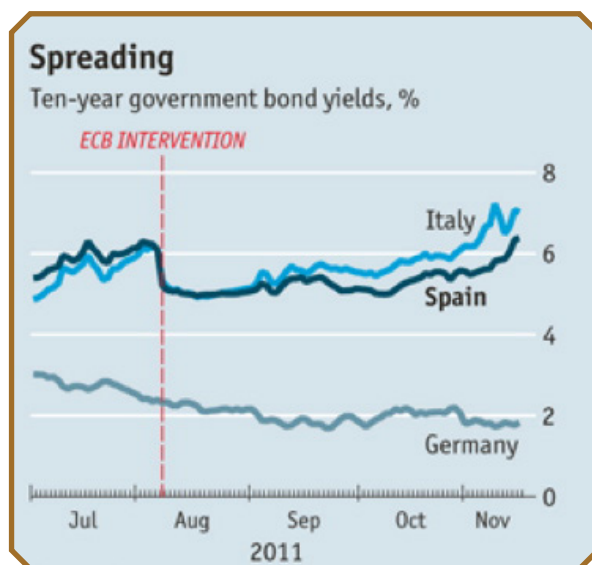
☆☆☆ DEALBOOK / [LINK](#)

For a taste of the real Spain, try Castile-La Mancha. This is the land of Manchego cheese and saffron. The vast plains are dotted with the windmills at which Don Quixote once tilted. Squatting incongruously among them is a €1.1 billion (\$1.5 billion) white elephant: Ciudad Real's airport. Other than the chirping of autumn crickets, the silence is absolute. The last commercial flights ceased at the end of October (the airport remains open to private planes). The only signs of life at the visitor centre are bats in the ventilation shafts.

This airport tells a tale about Spain. In the past decade, during el boom, money poured in, inflating a huge construction bubble. Grand infrastructure projects like Ciudad Real airport sprouted. Many of Spain's 17 regional governments channelled cash into trophy schemes—universities, art galleries, high-speed rail—with no concern for whether they would pay their way. They were abetted by the *cajas*, small unlisted savings banks, often with opaque ownership structures, that lent recklessly on the assumption that property prices could move only in one direction.

All these sins are evident in Ciudad Real's airport. Although private, it was backed by Castile La-Mancha's Socialist government. It was part-funded by a *caja* that went bust. After a couple of years of misery, in which passenger numbers came nowhere near estimates, the airport's managers filed for bankruptcy. It is tempting to call the project quixotic, but the owners got there first: the airport was opened under the name "Don Quijote" in 2008.

The story also explains why, in a general election on November 20th, Spain will eject its prime minister—the last of the five most troubled euro-zone countries to do so since the crisis broke. At least the exit of José Luis Rodríguez Zapatero, Spain's Socialist prime minister since April 2004, looks graceful next to the chaotic departures of George Papandreou of Greece and



SOURCE: THOMPSON REUTERS / ECONOMIST

Silvio Berlusconi in Italy. Mr Zapatero's days have been numbered since April, when he said he would not seek a third term. Instead, he made Alfredo Pérez Rubalcaba his party's candidate.

Mr Zapatero's legacy will be unhappy. When the crisis hit in 2008 the construction boom was already over. Yet Mr Zapatero would not accept that Spain was vulnerable. Its well-regulated banks had avoided dodgy subprime ventures, he insisted. But over the years the economy had grown unproductive, uncompetitive and unbalanced. By 2008 construction accounted for 10% of output, twice the euro-zone average. Wages had outpaced productivity. Although public debt remained low, private-sector indebtedness had soared. By the time Mr Zapatero saw the light in May 2010, it was too late. His reform efforts since have been halting at best.

The results are ugly. Unemployment in Spain, at 22.6%, is the highest in the European Union and the OECD. Among 18- to 24-year-olds it is an eye-watering 46%. The economy is heading into another recession. Spain is going to miss its budget-deficit target of 6% of GDP for 2011. The markets will ask some hard questions next year. And the man charged with answering them will be Mariano Rajoy, leader of the centre-right People's Party (PP).

★ ★ ★ THE ECONOMIST / [LINK](#)

Capital flight is a perfectly logical consequence in today's world. Barely a day passes where we are not reminded that nothing is safe any more. Not our currencies, not our equities, not our bonds and certainly not our banks/brokers.

In Greece there are many examples where capital flight is undermining stability. The most obvious is the capital flight from the Greek banks that has taken place over the past few years. This flow of money is also perfectly logical. There are many risks of leaving money in a Greek bank:

- The Bank could default. The principal in the account is at risk. The guarantee (up to €100k) is from the government. What's that worth? If the banks were going under so would the solvency of the government.

- The government could default. The chaos that would follow would result in a freeze of all bank balances.

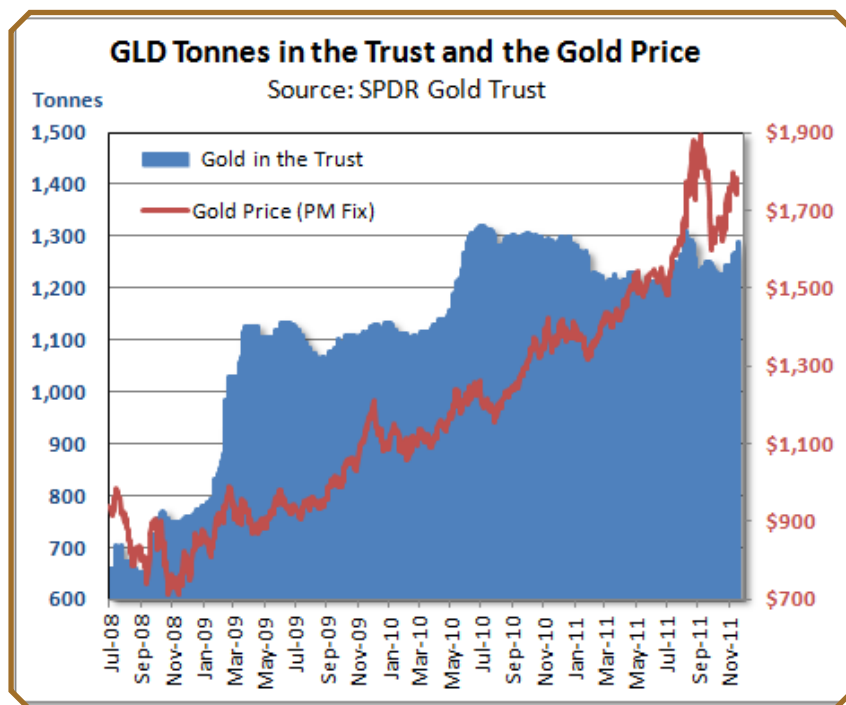
- The government could announce one morning that it was re-establishing the Drachma. This would mean that any Euros in a Greek bank would be automatically converted into Drachmas at the old official rate. The value of those Drachmas would be worth half (or less) as a result of the immediate devaluation that would occur.

Put yourself in the mind of a Greek who had some savings in a local bank. What would you do? You would do whatever you could to get your money to high ground. It would be perfectly reasonable for you to do that. And that is exactly what the Greeks have done. They've moved billions of Euros to Swiss banks in an effort to preserve their wealth. In the process they have crippled the Greek banks and have added to the downward spiral in Greece and the rest of the EU.

There was (IMHO) a very significant development on this front last week. A move is being made in Brussels to "force" the Swiss government/banks to transfer all of the assets of Greek citizens back to the Greek banks. For a Greek this means that your money is hostage. It has been functionally expropriated. It will be transferred into a banking system that is fraught with risk. Some portion of the money that goes back to Greece will certainly be lost.

I have talked with some who I know in Athens. They are out of their minds with this development.

★ ★ ★ BRUCE KRASTING (THANKS BOB) / [LINK](#)



SOURCE: TIM IACONO

☆☆☆ TIM IACONO / [LINK](#)

Despite a precipitous decline in the gold price in recent days, the world's most popular gold ETF - SPDR Gold Shares (GLD) - has been adding to its holdings. According to the latest at the SPDR website, nearly 50 tonnes were added to the trust over the last four days as the gold price dipped more than \$50 an ounce.

The much discussed sale of one-third of John Paulson's GLD holdings - roughly 20 tonnes - seems to have had only a transitory impact on the ETF's overall holdings. And as more of the world's central banks trade in their increasingly dodgy paper money to buy gold, it looks like 2011 will mark the 11th straight year of gains for the once barbarous relic.

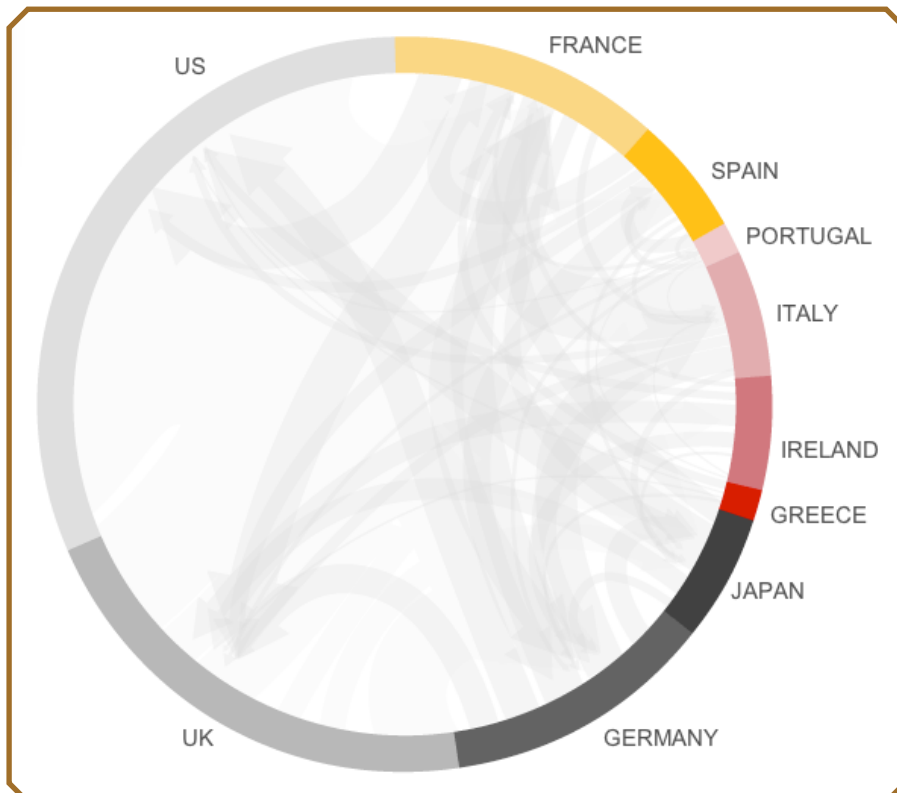


SOURCE: BLOOMBERG

The spread of the AAA-rated EFSF 10yr 3 3/8 2021 bond over its German bund equivalent.

Any questions?

CHARTS THAT MAKE YOU GO *Hmmm...*



[CLICK TO VIEW](#)

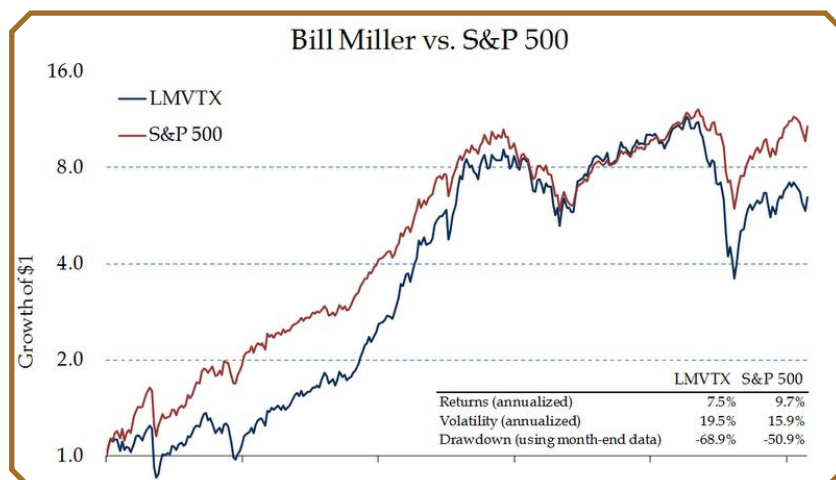
SOURCE: BBC

A great BBC interactive graph that shows just how tangled a web the Eurozone is and highlights exactly why there is so much at stake for ALL the members

(Thanks AZ)

Following the Legg Mason announcement that Bill Miller will step down as CIO after a 30 year run with the firm, Abnormal Returns details the difficulty of providing consistent above average equity returns:

Bill Miller co-manager of Legg Mason Capital Management Value Equity announced he was stepping down as CIO of LMCM effective April 2012. Like Woods Miller had a fifteen year period where he was seemingly unstoppable. His fund topped the performance of the S&P 500 every year over this time period.



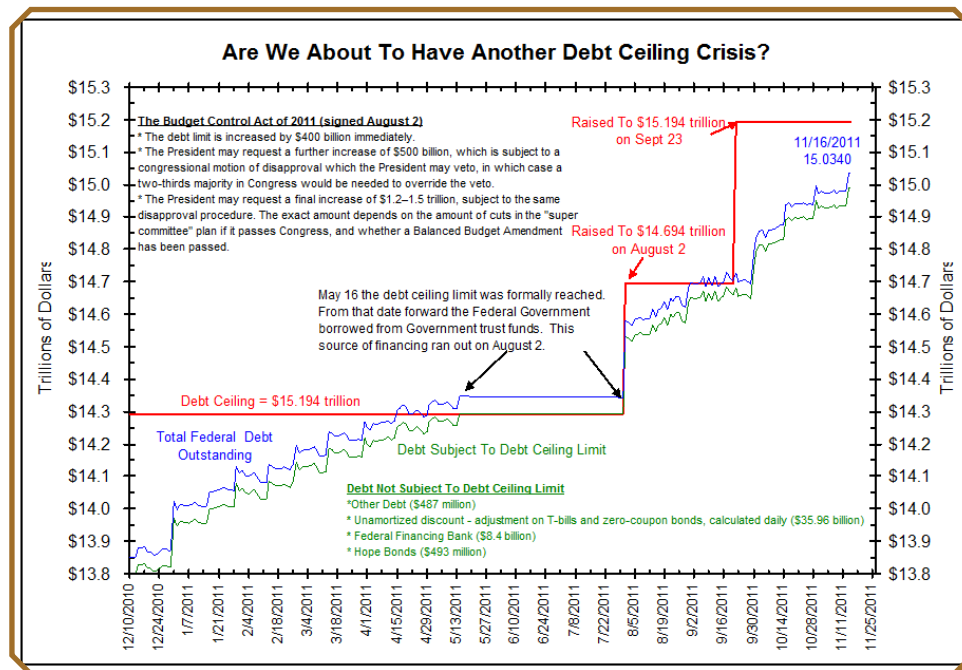
[CLICK TO ENLARGE](#)

SOURCE: ECONOMIC

Bill Miller has managed the Legg Mason Capital Management Value Equity fund (LMVTX) since 1982. I was only able to pull data online since 1986, but results of that data (relative to the S&P 500) is shown below. What I didn't know before looking at the data was his stretch of under-performance before his remarkable 15 year run that began in 1991.

★ ★ ★ ECONOMIC / [LINK](#)

Earlier this week, the total debt in the U.S. topped \$15 trillion (\$14.98 trillion of which counts against the debt ceiling). This makes the U.S. just a few ticks away — \$200 billion, practically a rounding error in DC terms — away from the current ceiling.



CLICK TO ENLARGE

SOURCE: BIANCO RESEARCH

Estimates for based on current pace of debt accumulation are that the ceiling should be reached around New Year's Eve, plus or minus a day.

To raise this ceiling, the Super Committee must agree to \$1.2 trillion in debt reduction over the next 10 years. No one is particularly optimistic about the prospects for this occurring.

Will early August's default talk return once again?

★ ★ ★ BARRY RITHOLTZ / [LINK](#)



Something big is close to happening on China's Shanghai Composite Index.

Take a look at today's Shanghai chart and you will see that there is a huge triangular pattern going back to 2005.

The support and resistance lines both have 3 touch points and the triangular pattern is VERY close to its apex. The apex is the convergence point of its support and resistance lines, and that is where a triangular breakout will occur.

This pattern is huge due to its time duration in forming, and the rule is ... the longer the time period in a pattern, the bigger the breakout that occurs.

This pattern is so large, that its breakout should affect other international indexes, and the Shanghai's proximity to the apex is suggesting that an important event is very close at hand.

★ ★ ★ STOCKTIMING / [LINK](#)

WORDS THAT MAKE YOU GO *Hmmm...*



CLICK TO WATCH

Look..... I'll stop including clips of him when he stops being the only one with the courage to speak his mind. Deal?

More Nigel Farage brilliance as he once again takes on the Eurocrats this week...

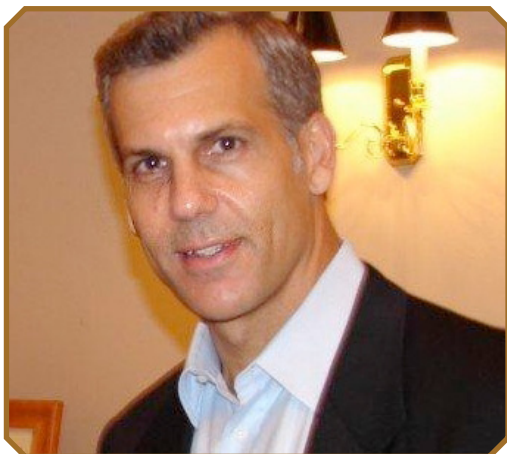
In the foreground, an obnoxious BBC anchor with an agenda. In the background a man who gets the joke - Kyle Bass.

Excerpted versions of his interview have been doing the rounds but thanks to George Adcock at tickbytick we can watch it in its entirety.

An excellent interview from Kyle in the face of.... well, see for yourselves



CLICK TO WATCH



CLICK TO LISTEN

The excellent Jim Puplava talks to my friend Bill Laggner of Bearing Asset Management about the ongoing debacle in Europe. Bill's concerns that the contagion is spreading rapidly and could well suck in the US unless action is taken echo my own - Bill just explains them better than I do!

and finally...

The National Geographic Photo Contest is always one of the highlights of the year for a photography buff such as myself. This year is no different with some absolutely stunning images entered.

I won't tell you what this is a picture of, in order to encourage you to click on the link and see for yourself, but if you do, you'll be amazed...

Enjoy!



SOURCE: RUSSELL WATKINS

Hmmm...

SUBSCRIBE

UNSUBSCRIBE

COMMENTS

© GRANT WILLIAMS 2011