

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

A walk around the fringes of finance



“...raising the debt ceiling does not allow Congress to spend more money. It simply gives our country the ability to pay the bills that Congress has already racked up. In the past, raising the debt ceiling was routine. Since the 1950s, Congress has always passed it, and every President has signed it. President Reagan did it 18 times. George W. Bush did it seven times. And we have to do it by next Tuesday, August 2nd, or else we won't be able to pay all of our bills.”

— PRESIDENT BARACK OBAMA, JULY 2011

“Grant, just because all your friends do it, doesn't mean YOU should and doesn't make it right”

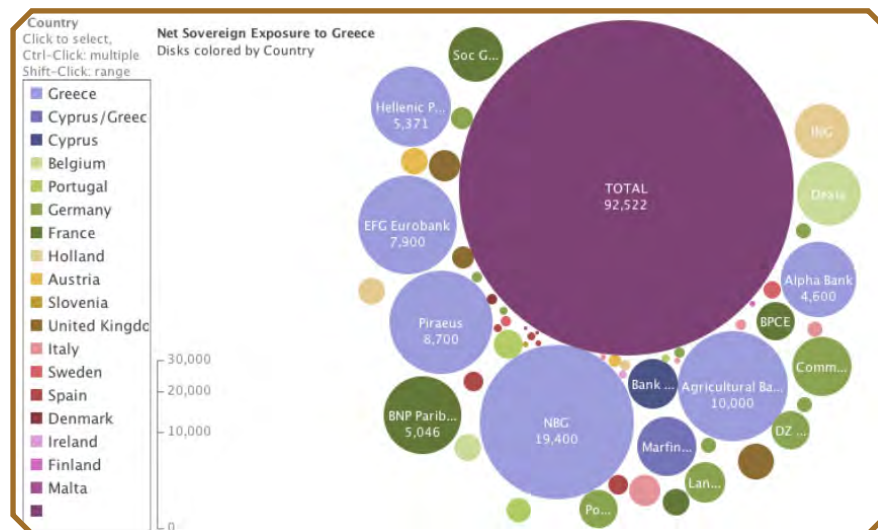
— My Mother, *a minimum of 3 times per week, every week between 1970 and 1983*

“What is happening here?  
Something is going on  
That's not quite clear...  
Oh, what a feeling!  
When we're dancing on the ceiling”

— Lionel Richie, *Dancing On The Ceiling*

*While the floors underneath our feet are crumblin'  
The walls we built together tumblin'  
I still stand here holdin' up the roof  
Cause it's easier than telling the truth.*

- Kris Allen, *The Truth*



[CLICK TO VIEW INTERACTIVE](#)

SOURCE: UK GUARDIAN

**L**ets get real, shall we? Starting with Greece.

Greece is bankrupt. Greece has about as much chance of paying back €219 billion in bailout funds (the amount it has so far received from the 'Troika' to try and keep it solvent and avoid the default that would be so costly for banks across Europe) as I would. Unsurprisingly, the Prime Minister of France (home to Banque Paribas and Societe Generale) Nicolas Sarkozy and Angela Merkel, Chancellor of Germany (home to Deutsche Bank as well as dozens of barely solvent Landesbanks) have miraculously put behind them a

history of dispute on the way to miraculously 'solving' the crisis in Europe and have found a way to make peace with the idea of no haircuts for bondholders of Greek debt. Of course, this 'solution' has yet to be ratified by the German public who won't have a chance to express their views on the matter until the next elections are due in Germany in 2013 - but sometimes elections happen before they are scheduled. The French go to the polls early next year, of course, so we'll get some sense what they are thinking before too long

**S**o what exactly does Greece's economy look like? How is the health of the engine that is going to drive the growth necessary to pay back the hundreds of billions of Euros in accumulated debt? Well, let's take a look:

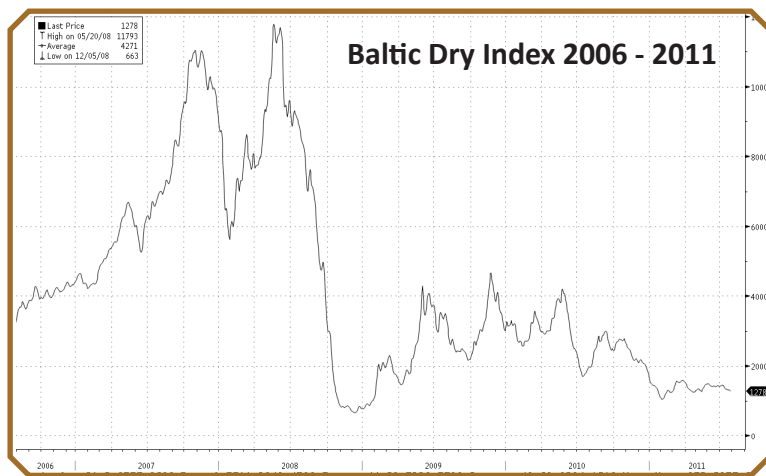
*(Wikipedia): Greece is a developed country, with a high standard of living and "very high" Human Development Index, ranking 22nd in the world in 2010, and 22nd on The Economist's 2005 world-wide quality-of-life index.*

Not too bad, eh? A 'High' standard of living has to be a good thing, surely?

What about the pistons that are going to drive the mighty Greek economy back into rude health and allow all those Euros to be paid back without default?:

*(Wikipedia): Greece's main industries are tourism, shipping, industrial products, food and tobacco processing, textiles, chemicals, metal products, mining and petroleum.*

Let's start with shipping.



SOURCE: BLOOMBERG

Greece's fabled maritime fleet is the world's largest (3,000+ vessels) and constitutes around 18% of the global fleet. It contributes roughly 4% of GDP, employs about 160,000 people (4% of the population) and is responsible for a little over 30% of the country's trade deficit. Despite ships making a significant contribution to Greece's economy since before Helen of Troy's face launched a thousand of them, the modern fleet was largely created by the US Ship Sales Act of 1940 which saw the United States sell surplus ships at bargain prices to the Greeks after the end of WWII. Messrs. Onassis and Niarchos took the industry to new heights in the 60s and 70s and became household names in the process.

**G**reece leads the world in both Dry Bulk Carriers and Tankers and runs a handy fourth in Container ships so, from this position of undoubted power in an industry that still carries 95% of the world's trade volume, it would appear to have a good chance to generate some real growth.

Unfortunately, a quick look at the Baltic Dry Index (chart, above) suggests that, until we see the end of the 'transitory soft patch™' and a return to REAL growth, the engine room of Greece's economy is hardly likely to generate sufficient power to help drag it out of its malaise and back to the kind of health required to pay back the ~~€45 billion loaned to it in April, 2010, €110 billion loaned to it in May 2011,~~ €219 billion extended in bailout loans alone.

But fear not (yet), for after the shipping industry, our next port of call (sorry - irresistible) is Greece's fabled tourism trade.

**D**epending on your sources, this sector contributes between 15% and 25% to the country's GDP each year with more than 16 million visitors flocking to the islands and beaches of the Aegean to be catered for by an industry that employs almost a million people or 20% of the nation's work force.

In 2008, 17.7 million people visited Greece (most of them, one would imagine, prior to the demise of Lehman Brothers and the ensuing global swoon) while in 2009 a massive 19.3 visitors visited the Hellenic Republic. However, in a press release from the Hellenic Statistical Authority, we got a glimpse at how 2010 shaped up - and it didn't make for good reading:

*(Hellenic Statistical Authority): According to the Boarder Statistical Survey, conducted by the Bank of Greece, in the period Jan-June 2010, arrivals of non-residents from abroad decreased by 5.4%, as compared to the same period of the year 2009 .*

*More specifically, the arrivals from Europe, from where comes the majority of the Greek tourist market (87.5%), showed the period Jan-June 2010 a decrease by 7.4% as compared to the same period of 2009, while the Member States of the European Union recorded a decrease of 6.0%.*

Fortunately for the Greeks, a surge in arrivals from Russia (+64%), Serbia (+42%) and Poland (+90%)

offset declines in visitors from Germany (- 14%), the UK (- 15%) and France (-10%). Hardly an ideal demographic trend, one would think.

**I**t seems, though, that there may be some signs of life in the tourism business in Greece as Helena Smith discovered recently:

*(UK Guardian): as far as tourism is concerned Greece is not merely open for business, it is expecting a bumper year. And for visitors this summer, the country promises to be one giant bargain... Tourists who might have headed to north Africa have instead opted for the Greek islands. With arrivals set to rise by at least 10%, the sector has become the sole bright light on a landscape darkened by an otherwise epic battle with the country's debts.*

Of course, 'expecting' a bumper year isn't QUITE the same as counting the inflows at the END of a bumper year (rather like 'expecting' subprime to be contained, or 'expecting' inflation to moderate), but the mayor of Hydra is certainly upbeat:

*"Hydra is as popular as it has ever been," says mayor Angelos Kotronis, seated before an array of oil paintings conjuring the glory of the island's seafaring past. "Our hotels are full, our shops are full, the boats are full. We're not complaining."*

The government, too, are taking their part in trying to boost tourism:

*Last month, the administration reduced the price of ferry tickets by abolishing costly levies. The move followed the waiving of landing and taking-off fees at airports outside Athens, which has resulted in a reduction in the cost of air travel. A similar decision to bring down VAT from 11% to 6.5 % on tourist accommodation has ensured the country has become more competitive.*

With reports of double rooms being offered for as little as €13 on the island of Corfu and €36 on Mykonos though, it's hard to see how things are going to be turned around quickly, especially as, once the tourists are in the country, thoughts turn to extracting the maximum revenue from them:

*The grand ochre-coloured mansion housing [Hydra's] main museum high in the town attracts a steady stream of visitors but despite the steep climb, many refuse to pay its €4 entrance fee when they reach it. "Often if they can't get the reduced tickets for pensioners and students they'll stay outside," says Anna-Maria Sarigiannis, who has worked at the museum for the past 16 years. "We're definitely feeling the pinch of the economic crisis."*

In slightly more sombre mood than when we last met him, however, Hydra's mayor lays out the extent of the real problems facing the island:

*"The municipality is faced with debts of over €3.5m – we can't even pay our water bills,"*

But fear not, the government of George Papandreou is on the case and, earlier this week, the PM himself sent out [letters to all government ministers](#) laying out the priorities and deadlines they are working to until the end of August.

The Development, Competitiveness and Shipping Minister received the following instructions:

- 1. Plan to accelerate and change NSRF financing, based on the negotiations underway with the EU*
- 2. Preparation of a draft bill to remove obstacles to enterprise*
- 3. Shipping policy (in collaboration with the defence ministry)*

While the Minister for Culture and Tourism, Greece's big hope, got down to the real nitty gritty:

1. *Carrying out a plan for cleaning up Greek professional football*
2. *Examining the merits of modifying the law on sea cruises, in collaboration with the development ministry*

Really? Cleaning up Greek professional football? Now? P-R-I-O-R-I-T-Z-E George. Yes, I know you have been presented with a 93,000 page report after a year-long investigation into match-fixing, but on the basis that none but the most ardent of football fans outside Greece have ever heard of any Greek football teams apart from AEK Athens, Panathanaikos and, possibly, Olympiacos, could we perhaps focus on the wider issues?

**Let's get real, let's get rough,  
Gotta get growin' when the going gets tough  
I ain't afraid the dark 'cause that's the stuff  
That forces me to face my dirty demons  
Straight up  
- Elevators, Let's Get Real**

Finance Minister, Evangelos Venizelos is at least making an effort - no matter how futile:

*(UK Guardian): Appealing to businessmen, shipowners and financiers who transferred large amounts of wealth out of the crisis-hit country, finance minister Evangelos Venizelos said last week's mega-deal had ensured that Greek banks were now among the safest in the world.*

*"Brussels' agreement absolutely guarantees [the liquidity] of banks," he said in an interview with the authoritative Sunday Vima. "Today banks are much safer ... this is an opportunity for the money that has been taken abroad to be re-deposited in Greek banks," he added to help kick-start the cash-starved economy...*

*An estimated €15bn is believed to have left Greece as high-income earners moved savings abroad amid speculation the nation could default €350bn debts.*

*Venizelos insisted that it was the patriotic duty of Greeks to pump their cash hoardings back into the economy.*

Unfortunately, one can't help but suspect that he is, perhaps, overly optimistic:

*Greek money moved mostly to banks in Switzerland and Cyprus. Greeks eager to offload deposits have also been reported flying to the UK with "suitcases full of cash" used to snap up prime properties in central London.*

*Estate agents in the capital said that over the course of the past year Greeks had scaled the rich list of foreigners acquiring £2m plus properties in Britain "often closing deals in less than a week."*

I hate to be the one to break it to poor Evangelos, but that money ain't comin' home in a hurry.

**G**reece's economy, far from being one it is wise to plough hundreds of billions of Euros into to help prop up, is, not to put too fine a point on it, a basket case. The underground economy generates more than 40% of official GDP, tax evasion is more-or-less seen as a birthright, if not a



national sport, and the 4% growth that was common-place in the decade preceding 2007 was due almost exclusively to a surge in consumer spending (debt-financed, naturally) and government borrowing - which led to the fabled Goldman Sachs swap transactions that facilitated Greece's entry into the EU in the first place.

Greece's political class are another matter altogether.

In a recent op-ed piece, C.J. Polychroniou had this to say about the guardians of the Troika's bailout billions:

*With political leaders like these, no wonder Greece is at the edge of the abyss. For all practical intents and purposes, the country is essentially bankrupt, and it has become a litmus test for the eurozone. Greek citizens are, nowadays, making a national sport out of attacking ministers and members of the parliament and routinely staging massive demonstrations outside of the parliament, shouting, "Thieves!" and, "Traitors!" at the elected officials inside. They seem to have finally realized that the Greek political class has proven to be not only thoroughly corrupt and irredeemably irresponsible, but also infuriatingly inept, horribly ignorant and profoundly incompetent. One would be hard-pressed to identify a single Greek leader in recent years from any point on the political spectrum who possessed the ability, or the courage, to conceive and articulate a long-term vision for the future of the country's political life and pedagogically engage the public in the rebirth of a civic virtue. Similarly, the political elite as a whole - including intellectuals - has shown no interest at all in charting a national development strategy, or in tackling, in a concerted and systematic manner, the plethora of domestic and international challenges the nation faces.*

Still, corruption in Greek football will no doubt soon be a thing of the past.

If it isn't the moribund shipping industry or the declining tourism trade that finally condemns Greece (and the billions in taxpayer funds thrown into the black hole of her finances), it will be the rampant tax evasion or the inept politicians and widespread corruption. Angela Merkel is going to have some explaining to do to those 82 million angry Germans we spoke about last time once the inevitable happens and the Greek debacle meets the end it has been destined for since day one.

**Get real!  
We want to really feel the feeling!  
Get Real!  
Oh, we won't ever hit the ceiling  
Get real!  
Now we get to do the doin'  
Get up, get on, get over it  
And get out of our way  
It's time to get real  
- Zeta Bytes, *Get Real***

**W**hile we're getting real, how about we move on to what Ambrose Evans-Pritchard this week so beautifully referred to as the "Kabuki Theatre of America's Debt Ceiling"?

The posturing of the past few weeks has been, at times pathetic, at times embarrassing and at times even comical as a mathematically-challenged John Boehner and an extremely un-Presidential Barack Obama have traded insults and stormed out of rooms indignantly like a couple of children in the middle of a playground spat. As a friend of mine said to me this week, "if your kids behaved like these two clowns, you'd smack them and send them to their rooms" (please.... PLEASE, no emails about the

rights and wrongs of smacking your children). Throw in the Chicken Little antics of Timothy Geithner and Larry Summers and you have the makings of a panic that, like all good panics of recent vintage, ‘threatens to bring down the system’.

In an appearance on Fox Sunday last weekend, Geithner told Chris Wallace:

*“We’re almost at the edge. I never thought they would take it this close to the edge and let politics get in a way of demonstrating -- well, will we pay our bills on time?...[t]here are millions and millions of Americans that depend on those checks coming on time -- not just people from the military, but people who get Social Security benefits, Medicare and Medicaid benefits. And we cannot put those payments at risk and we do not have the ability to limit the damage on them if Congress fails to act in time.”*

Previous occupant of Geithner’s office and always ready with a quote, Larry Summers took things even further in his ongoing hunt for rhetoric when he sat across the table from Charlie Rose this past week:

*(San Francisco Chronicle): Failure by Congress and President Barack Obama to reach an agreement to raise the U.S. debt ceiling would lead to “the Lehman event on steroids,” said former Treasury Secretary Lawrence Summers.*

*“The buck will be broken in money market funds; Americans will rush to get cash and put it under their mattresses; major corporations will be unable to borrow; the stock market will crash and, quite likely, the base mechanisms of payments that keep the economy going will break down,” Summers said in an interview today on “The Charlie Rose Show.” “I’d just leave it that we all remember the fall of 2008 and it would be a lot worse.”*

Summers gave variations of that speech to CNBC’s Squawk Box and CNN’s Fareed Zakaria amongst others and threw in the odd ‘cataclysmic’ and a couple of ‘financial armageddons’ for good measure and succeeded in scaring the bejeesus out of just about everybody – nice job Larry.

So what’s the reality? Well let’s begin with ‘August 2nd’.

The date that the entire world is now utterly fixated upon has become cast in stone, in many places, as the day the world could change forever. But where did it come from? [In a letter to Boehner](#) on May 2nd, Geithner wrote:

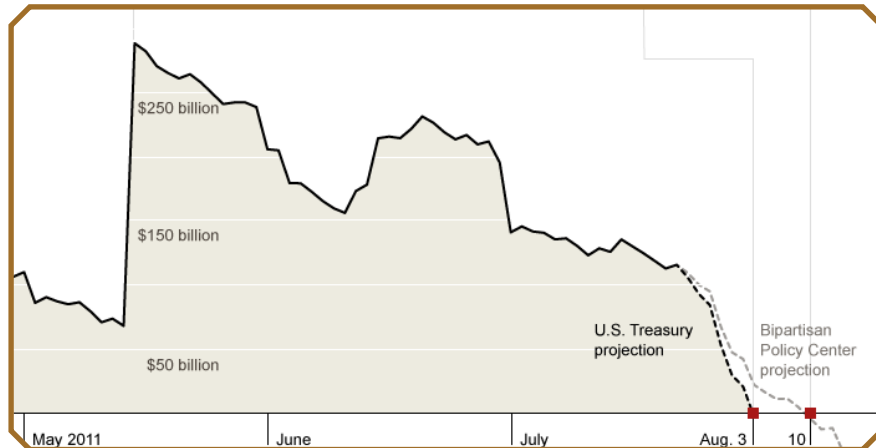
*“Further to my letters of January 6 and April 4, 2011, I am writing again to Members of Congress regarding the importance of protecting America’s creditworthiness by enacting an increase in the statutory debt limit. This letter is to inform you of the extraordinary measures the Treasury Department will begin taking this week in anticipation of the date the debt limit will be reached, and to provide an updated estimate of the Department’s ability to use these measures to preserve lawful borrowing authority without exceeding the debt limit...*

*If Congress does not increase the debt limit by May 16, the Treasury Department will be forced to employ further extraordinary measures on that date to provide headroom under the limit...*

*Largely as a result of stronger than expected tax receipts, we now estimate that these extraordinary measures would allow the Treasury to extend borrowing authority until about August 2, 2011, approximately three weeks later than was forecast last month. This is a projection and is subject to change based on government receipts and other factors during the next three months.”*

You’ll notice the use of the words ‘estimate’, ‘about’, ‘approximately’ and ‘projection’ as well as the fact that this ‘projection’ is ‘subject to change’.

**L**et's get this straight; the US is NOT going to default. Period.



[CLICK TO ENLARGE](#)

SOURCE: NY TIMES

**W**hen you can pay your creditors in pieces of paper upon which the ink is still wet, that particular outcome is neither likely nor viable (although I WILL admit that the level of hubris, grandstanding, political posturing and intransigence these past few weeks has surprised even me).

But back to August 2nd. In actual fact, projections as to the exact day when the US 'defaults' vary depending on your source. Geithner's August 2nd has certainly become the most high profile date thus far, though the Bi-Partisan Policy Center (along with a gaggle of

Wall Street analysts) believes that 'D-Day' will, in fact, not arrive until August 10th as the graph (left) shows. The point is, whatever the correct date turns out to be is irrelevant. The US has absolute control over whether it defaults or not and they are not about to cross that line - at least not in the real sense of not paying their creditors.

What they DON'T have complete control over are the reactions of the ratings agencies to their behaviour and, by extension, the reactions of the investing community to any action taken by the ever-more militant men and women at Moody's, S&P and Fitch who, collectively, seem to have found a religion that was sadly missing in 2008.

For now, the agencies are playing along as Moody's proved in a statement released on Friday after the appalling GDP numbers cast new doubts on the state of the US economy:

*The prolonged debt ceiling deliberations have increased the possibility of a rating change or outlook change, or both for the United States government's Aaa government bond rating. Nevertheless, it remains our expectation that the government will continue with timely debt service, and that our review for downgrade will more likely than not conclude with a confirmation of the Aaa rating, albeit with a shift to a negative outlook.*

Phew..... although they're not rolling over completely this time:

*However, if there were a default on a Treasury debt obligation, a downgrade would likely follow, even if the default were swiftly cured and investors suffered no permanent losses... If the debt limit is not raised before August 2, we believe that the Treasury would give priority to debt service payments and could thus postpone a potential debt default for a number of days... As to the longer-term outlook on the rating, the limited magnitude of current deficit reduction proposals suggest that even a timely increase in the debt ceiling will lead to the assignment of a negative outlook on the rating.*

In the interests of providing clarity, Moody's have tightened the noose around the posturing necks of America's politicians by setting out a roadmap for what will happen in the event a default on debt obligations:



*We do not consider delayed payments for obligations other than debt service to be a default. The government will have to cut its spending by more than 40% after August 2 without an increase in the debt limit, since that is the proportion of spending that has been financed by debt issuance. To do so, it may delay payments for different kinds of obligations, such as the salaries of government employees, Social Security and Medicare payments, payments to companies that have contracts with the government, or debt service... A missed interest or principal payment on a Treasury security, on the other hand, would constitute a default. If this were to occur, which we still consider unlikely, the rating would be downgraded. One scenario would be a downgrade by one notch to Aa1 immediately, with the rating remaining on review for possible further downgrade.*

*A one-notch downgrade prior to the expected resolution of the default would reflect our view that, even if interest payments were resumed quickly, a return to Aaa in the near future would be unlikely.*

It will be hard for them to backtrack from this stance if things DON'T get settled, but they're not alone as, earlier this week, S&P declared that the chances of a downgrade for the US credit rating were no better than 50/50 and ISDA set out the guidelines for what would constitute a default under THEIR rules:

*The United States would have at least 3 days to make up for any missed debt payments before it triggered payments on its credit default swaps, according to trade association the International Swaps and Derivatives Association.*

*There has been some confusion over whether the United States would trigger an estimated \$4.77 billion in payments on its CDS if it skips a bond payment as it runs up against an August 2 deadline when the Treasury has warned it will run out of cash.*

*The Treasury would have at least 3 days to cure any default, under CDS document rules, Steven Kennedy, global head of communications at the association in New York, said on Tuesday.*

*"This grace period would apply if there was no grace period or if the grace period was less than three business days under the terms of the reference entity obligation," he said.*

**But if you look for truthfulness  
You might just as well be blind.  
It always seems to be so hard to give.**

**Honesty is such a lonely word.  
Everyone is so untrue.  
Honesty is hardly ever heard.  
And mostly what I need from you.  
- Billy Joel, *Honesty***

**S**o, despite Friday night's 'heroic' passing of Boehner's Bill in the House - a Bill that was immediately killed by a Senate that refused to play ball and left Boehner laying on the pathos with a trowel (incidentally, 'pathos' comes from the Greek word meaning 'suffering') - the posturing continues:

*(NY Times): "To the American people, I would say we tried our level best," Mr. Boehner said as he concluded a debate that had been abruptly halted Thursday evening when he fell short of the votes for victory. "We tried to do our best for our country, but some people still say no."*

**I**t amazes me that these jokers think for one second that they are convincing ANYBODY that this sham is anything more than political jockeying. What amazes me even MORE is the fact that not ONE of them seems to have a clue about what they're doing. As the wonderful Caroline Baum so succinctly put it late this week:

*The Treasury is not going to default in August, nor in subsequent months for that matter. An estimated \$172.4 billion of tax revenue next month is more than enough to cover the \$29 billion of August interest payments. For fiscal 2011, which ends Sept. 30, the Treasury is expected to take in revenue of \$2.2 trillion, while only \$214 billion is needed to service the debt.*

*Instead of dangling the default threat every chance they get, Obama and Geithner should be telling the world that the U.S. has every intention, and the resources, to meet its debt obligations. They should shout it from the rooftops, put a banner on the Treasury Direct website, and use the Sunday talk shows to reassure investors, not frighten them.*

*The administration's stated desire to remove the uncertainty hanging over the economy flies in the face of their saber-rattling. Why, one might even conclude that they are -- perish the thought -- playing politics with the debt ceiling!*

So, keeping it real, what happens now? Well, the debt ceiling will get raised - most likely this weekend - and the usual photo-op of sycophants cheering and applauding behind a podium will be all over the news, but the raise will be just another step on the road to financial ruin for the United States if

“... 61% of all the marketable Treasury debt held by the public will mature within four years . Thus, over the next four years, the U.S. Treasury must either repay or refinance more than \$1 trillion in existing debt each year

it continues to layer fresh debt upon existing debt as a way to solve its problems and turns to printing presses and raised ceilings as the balm of choice.

In this kick-the-can culture we now live in since the events of 2008, it's never that difficult to figure out WHAT the powers-that-be will do (simple: whatever short-term fix involves the least short-term pain to banks and to their own chances of re-election), but it seems to be getting harder to ascertain WHEN they will do it.

This is all well and good, except sooner or later they will wake up and find that the adults have decided enough is enough and they'll vote with their money. As Porter Stansberry pointed out back in May:

*... 61% of all the marketable Treasury debt held by the public will mature within four years . Thus, over the next four years, the U.S. Treasury must either repay or refinance more than \$1 trillion in existing debt each year – not to mention additional deficit spending of at least \$1.5 trillion. For us to avoid a default, the U.S. Treasury may have to borrow or refinance as much as \$10 trillion in the next four years. That would double the amount of U.S. Treasury bonds currently trading in the world's markets.*

Oaktree's Howard Marks added a few thoughts of his own on the matter this month:

*I believe, however, that (a) our rating will be cut if there's a default, (b) this would have serious repercussions for our cost of borrowing, and (c) even if we were able to avoid default and/or downgrade, the feeling that our political leaders had engaged in irresponsible action could reduce lenders' view of our credit and increase our cost of borrowing anyway.*

*I strongly doubt the dollar can remain the world's reserve currency, of which unlimited amounts are accepted, without unflinching adherence to the associated responsibilities.*

**S**o tell me - and keep it real - would YOU lend money to a country with THOSE debt dynamics that is being run by a bunch of incompetent, bickering grandstanders if it DIDN'T possess the world's reserve currency?

Me either.

**Yeah, the ones that you're calling wild  
Are going to be the leaders in a little while  
This old world's wakin' to a new born day  
And I solemnly swear that it'll be their way  
You better help the voice of youth find  
"What is truth?"**

- Johnny Cash, *What Is Truth?*

**A**fter an unusually long introduction, we get to the main course and today there's plenty to get your teeth into, starting, of course, in Greece where black market taxi drivers are striking in protest at the government's plans to open up the industry and insisting on being paid from public funds to compensate them for the fall in value of their illegal licenses (I wish I WAS making that up, but as a way to underline my earlier points about Greece, the timing was serendipitous in the extreme).

Elsewhere we look at China's strategic pork reserve, Cristiano Ronaldo's latest role - collateral, the meltdown of the UK energy industry and we return to Mongolia to take a look inside one economy that is set to go from strength to strength.

Steve Jobs may be in a position to loan his poor Uncle Sam a few bucks to tide him over, insiders ramp up their share sales in unusual circumstances while over in Europe, Spanish PM Zapatero decides enough is enough and realises it may be time to get out of Dodge before the heels REALLY fall off, the guardians of European fiscal probity somehow manage to keep a straight face as they explain why they are losing patience with the poor behaviour of their American peers and the Irish Independent takes the 'Murdoch Gang' to the woodshed.

We find out what didn't change when Nixon cut the gold link, see charts on China's beleaguered High-Speed Rail Network, US GDP contributions, world sovereign ratings and an amazing graphic that shows in stark detail just what kind of mountain the US' unfunded liabilities are going to be to climb.

Ken Langone imparts some beautiful wisdom, Michael Pento weighs in on the debt ceiling and Eric Sprott spends some time talking to Jim Puplava about silver.

**T**hat'll do, pig.

# Contents

31 July 2011

Striking Greek Cabbies Say Government Must Pay For Black Market Licenses

The Bacon Uprising: How China's Top-Secret Strategic Pork Reserve Is Burning Down The Amazon

Spanish Bank Fields Ronaldo As Collateral

Apple Has More Cash Than The U.S. Treasury

Mineral-Rich, People-Poor Mongolia Prepares For Flood Of Money Next Decade

Europe Losing Patience With US Debt Delays

You've Only Got To Put Up With Me For Four More Months

Insiders Selling At Unusually Fast Pace

The Coming UK Energy Meltdown

Bloodbath As Murdoch Gang Tears Itself Apart

What Didn't Change When Nixon Cut the Gold Link

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)
59	Virginia Business Bank, Richmond, VA	95.8	85.0	17.3
60	BankMeridian, N.A., Columbia, SC	239.8	215.5	65.4
61	Integral Bank National Association, Evansville, IN	2200.2	1900.0	170.7
<b>Total Cost to FDIC Deposit Insurance Fund</b>				<b>253.4</b>

**W**hen Giorgos became a taxi driver in Athens two years ago, he did it the only way he could: by breaking the law.

Unable to inherit a family business, he borrowed from the bank and paid 100,000 euros (\$143,010) for a license on the black market. Now he says he may fail to meet his loan obligations as the Greek government deregulates the taxi industry and opens the door to new cars taking fares as part of its commitment to a free market.

Thousands of drivers like 31-year-old Giorgos blocked approaches to airports and disrupted ferry services in recent strikes while demanding to be reimbursed for their illegal licenses.

“People that bought licenses recently, which was the only way to enter the profession unless it was passed on to you, will lose their money,” said Giorgos, who asked that his last name be withheld because of how he obtained his permit. “If they want to do it this way, they should say the state is buying all licenses for 50,000 euros.”

Greece has until this month shielded everyone from taxi drivers and hairdressers to pharmacists and lawyers from competition and falling prices. That protection is now giving way to the social and economic changes in new laws promised in return for the debt relief by the European Union so Greece won't lose the euro as a shared currency.

The list of more than 150 occupations that were closed to new entrants until the legislation went into effect on July 2 also included antique dealers, locksmiths, real estate agents and print media delivery services.

“It's a Soviet-style economy without the benefits of the coordination and planning,” Yannis Stouraras, director general of the Foundation for Economic and Industrial Research in Athens, said by telephone. “Right now, the Greek economy operates under a number of limitations that don't exist in other euro region countries or exist at a much lower level.”

More than 8,000 taxi drivers from across Greece gathered outside parliament on July 26 to protest. Scuffles broke out yesterday with officers at Piraeus, Greece's biggest port, when about 3,000 taxi owners tried to block access to some piers, police spokesman Takis Papapetropoulos said.

Truck drivers led the frontline last year, staging blockades on national highways for more than a week, preventing delivery of raw materials and fuel to factories.

★ ★ ★ BLOOMBERG / [LINK](#)

**I**n the latest installment of the Butterfly Effect: The Chinese middle class is eating more and more meat, and Beijing wants to keep prices low. That means finding a way to feed all those pigs with grain imported from land cut from the Brazilian rainforest, leading to conflict within the BRICs.

Since Deng Xiaoping, China's leaders have been obsessed with “food security” the same way America's are haunted by not having enough oil. And as Chinese diets become more meat centric, fears of the

“... the average citizen's meat consumption has quadrupled since 1980, while pork consumption has doubled in the last two decades. And China's meat packers are just getting started...”

dangers in the fluctuation of pork prices led China to establish a top-secret “strategic pork reserve” in 2007, the only one of its kind. But maintaining all those pigs has led to a massive dependence on corn and soybean imports for animal feed, which in turn is leading China's agribusinesses to fan out abroad in a quest to control the means of production. China's attempts to control the means of production in other countries just rising



out of developing world is causing tension with its natural allies, and could be just the first step in an ever-escalating series of resource-based conflicts.

In 2006, a fatal outbreak of PRRS (aka porcine blue-ear disease) devastated China's swineherds, killing millions of pigs. The losses comprised just a tiniest fraction of its total herd of 660 million--more than the next 43 largest producers combined--but even the slight shortfall led to soaring pork prices a year later. Hence, the pork reserve, which would allow Beijing to move quickly to keep its citizens in ribs should there be another interruption in production.

China's strategic pork reserve is the direct consequence of an emerging, meat-eating middle class and a government determined to feed them. As the sociologist Mindi Schneider points out, Deng's economic reforms in the late 1970s privileged industrial farms over small plots to guarantee a steady supply of cheap pork. As a result, the average citizen's meat consumption has quadrupled since 1980, while pork consumption has doubled in the last two decades. And China's meat packers are just getting started--only 22% of China's pork production takes place in industrial feedlots, compared to 97% of America's. In the future, it will always be the Year of the Pig.

★ ★ ★ FAST COMPANY / [LINK](#)

**C**ristiano Ronaldo, the most expensive footballer in history, has joined the European Central Bank (ECB) on a free transfer. Sources say the authorities want his help on the sovereign debt crisis – by kicking the can further down the road.

Well, not quite. But Ronaldo could feasibly become ECB property after he was pledged as collateral for emergency liquidity support by Spain's struggling savings bank, Bankia. In 2009, one of the Spanish banks that has since become Bankia lent Real Madrid €76.5m (£67m) to pay the transfer fees for both Ronaldo and Kaka, the Brazilian forward.

“... It is not known whether the ECB imposed a haircut on the collateral, though it is thought unlikely the Portuguese winger would have consented without advice from a professional stylist...”

It has now emerged that Bankia has put up the loan as collateral with the ECB in return for vital funding. If both Bankia and Real Madrid go bust, the ECB would own the two “galácticos”.

The loan was rated AAA by Moody's, which judged the £80m Real Madrid paid Manchester United for Ronaldo and the £56m fee to AC Milan for Kaka a gilt-edged security – as safe as US government debt – for what that's worth. It is not known whether the ECB imposed a haircut on the collateral, though it is thought unlikely the Portuguese winger would have consented without advice from a professional stylist.

Collateralising the footballers is part of a rescue plan that has already seen Bankia take €4.5bn in state support. It was created earlier this year from the merger of seven troubled regional banks, becoming the country's largest savings institution. It plans a public listing to raise funds and bolster its finances.

The board is hoping the shares don't take a dive.

★ ★ ★ UK DAILY TELEGRAPH / [LINK](#)

**A**pple Inc. may not have more money than God. But it's got more cash than Uncle Sam.

As the government struggled to reach an agreement on raising the debt ceiling, the U.S. Treasury's cash balance fell to \$74 billion this week. That's less than the \$76 billion that Apple now has in cash.

It's not terribly likely that the government will ask Apple Chief Executive Steve Jobs for help. But it wouldn't be the first time the government has asked for a bailout from an industry mogul.

In the mid-1890s, with the U.S. economy still recovering from the financial panic of 1893, the U.S. Treasury was in danger of going bankrupt as worried investors clamored to collect what they were owed from U.S. gold reserves. With few options left, President Cleveland met with New York financier J.P. Morgan, who pledged a whopping \$60 million in gold. Adjusted for inflation, that would be about \$1.5 billion today.

"The fact that Morgan had become a cosigner on the federal debt was what impressed the markets," historian H.W. Brands wrote in his account "The Upside-Down Bailout." "Within days the Treasury's condition stabilized; within weeks the dollar's danger had passed."

To be fair, comparing Apple's cash reserves with the Treasury's is not exactly apples to apples.

Apple's billions are essentially the funds in its bank accounts, while the federal number represents the amount of money the government has left before it hits the legal debt limit — a figure that can be changed by Congress.

At about \$362 billion, Apple is the second-largest company in the world by market value (behind Exxon Mobil Corp. at \$395 billion) — big by any standard, but still far smaller than the U.S. government, which will spend close to \$3.8 trillion this year, 10 times what Apple is worth.

Still, Apple's reasons for keeping such a giant cash stockpile may well be related to worries about the stability of the U.S. government's finances.

"One of the reasons U.S. companies have amassed so much cash is that it provides them financial flexibility in times of heightened uncertainty," said Laurie Simon Hodrick, a professor of business economics at Columbia University's business school. "It might seem ironic, but as the risk of a government default grows, bringing with it the specter of higher interest rates, the incentives for firms to finance with internally generated cash grows as well."

★ ★ ★ LA TIMES / [LINK](#)

**H**urrying into her cramped office deep within Mongolia's huge Soviet-era Government House, Parliament member Sanjaasuren Oyun, 46, is flushed with excitement, a smile creasing her usually serious face.

She hands papers to her young female assistant and exchanges some quick words in the low guttural murmur of Mongolian. Dressed in a pinstriped suit, with a pearl necklace, hair cropped to a business-like shoulder length, and an iPad tucked under her arm, she turns to a waiting reporter.

"Sorry to make you wait," she said, switching smoothly to English, which she picked up as a student at Cambridge. "It's an important debate we are having today. We are considering a freeze on new exploration licenses."

Outside, it's a still-chilly, late-May afternoon in Ulaanbaatar, no sign of green along its potholed dirt roads. But the capital city of about 1 million people is already being transformed by forces greater than the change of seasons, Bloomberg BusinessWeek reports in its July 25 edition.

A freeze on licenses to explore for minerals is no small matter in Mongolia, a country undergoing a resources boom, as miners such as London-based Rio Tinto Group and China's Shenhua Group com-

“...Over the next decade, copper production is expected to double, iron ore to triple, coal to grow by six times, and gold and oil by 10 and 13 times, respectively.”

pete for the right to extract coal, copper, gold, molybdenum and uranium.

It's a resource play that's expected to bring a flood of money into the impoverished country over the next decade, centered around huge mining projects such as the Shivee Ovoo and Tavan Tolgoi coal reserves, valued at about \$300 billion

and \$400 billion, respectively, and the copper and gold mine Oyu Tolgoi, worth some \$300 billion, according to Quam Asset Management Ltd. in Hong Kong, which runs a Mongolia-focused investment fund.

Oyun is at the center of the country's efforts to pick its way between wealth and wise use. She is a geologist who once worked for the biggest investor in Mongolia's mining industry, Rio Tinto, yet she has made a career pushing for the rights of ordinary Mongolians and fighting corruption.

She is also part of the nation's young democratic history. On the wall in her office is a picture of her brother Zorig, a member of Parliament who seemed on his way to becoming prime minister when he was killed in 1998. His murder is still unsolved...

While it may be short on humans, Mongolia is one of the richest nations in terms of natural resources, and that's just the known deposits. Four-fifths of the country is still unsurveyed. Over the next decade, copper production is expected to double, iron ore to triple, coal to grow by six times, and gold and oil by 10 and 13 times, respectively.

Much of that growth will be driven by demand from China, predicts Eurasia Capital, an Ulaanbaatar-based investment bank that focuses on Central Asia and Mongolia.

The biggest prize is Oyu Tolgoi -- or Turquoise Hill -- named after the color of copper oxide as it seeps from the ground, and one of the largest deposits of copper and gold.

★ ★ ★ [BLOOMBERG / LINK](#)

**E**uropean leaders have long expressed confidence that the US would find a resolution to its ongoing debt impasse. But now there is growing concern that it won't. German Finance Minister Schäuble has urged US lawmakers to act responsibly and others have warned of unpredictable consequences if they don't.

For weeks, investors had seemed uncharacteristically calm in the face of the US inability to agree on a solution to the looming default. Traders who have become accustomed to running in panic from the euro at the slightest sign of debt concern in the European Union have shrugged off the Washington stalemate. "They'll make a deal," seems to have been the attitude.

That now seems to have changed. Stocks plunged on Wall Street on Wednesday, with the Dow Jones index dropping 200 points and interest rates on US bonds shooting up. Investors have also begun rushing to buy credit default swaps as an insurance policy against default.

Europe too is concerned. Just as the US urged the euro zone recently to accelerate its efforts to solve the Greek debt crisis, European leaders have now begun demanding action in Washington.

German Finance Minister Wolfgang Schäuble, widely respected in the US capital for his forthrightness, is the latest. "Everyone in the US should be aware of their responsibility for the global financial markets," Schäuble told the daily Passauer Neue Presse on Thursday. He added that he remained

confident a solution would be found, but “even then, America’s problems won’t be solved. The core of those difficulties is exorbitant debt and the economic prospects. Americans have to find long-term solutions to create solid fiscal and growth policies.”

He also couldn’t resist a barb for his partners across the Atlantic. “In the euro-zone we haven’t managed to solve all of our problems,” he said. “But we have at least taken an important step.”

The US doesn’t have much time left to take such an important step of its own. The deadline for raising the debt ceiling -- which would allow US President Barack Obama to continue paying the nation’s bills such as veterans’ benefits and welfare payments -- is August 2. Should Republicans continue to block ongoing efforts at finding a compromise, the consequences could be severe.

“The danger that the US becomes insolvent in less than a week has massively fueled unease,” Klaus Regling, head of the euro backstop fund known as the European Financial Stability Facility, told German tabloid Bild on Thursday. “Nobody knows what would happen if the largest economic power in the world would suddenly stop paying interest on its debt. That has never happened before. It would stir up the global economy.”

Christine Lagarde, the new head of the International Monetary Fund, said on Tuesday that a US default would be a “very, very serious event, not just for the US, but for the global economy at large.”

★ ★ ★ DER SPIEGEL / [LINK](#)

**F**or José Luis Rodríguez Zapatero, Spain’s unpopular prime minister, it was a question of what would be less painful—early elections in November, or at their expected date in March 2012.

Today, although his Socialist Party is still languishing behind Mariano Rajoy’s conservative People’s Party (PP) in the polls, he chose to shorten the suffering. Spain will hold a general election on November 20th.

“... Many fear that if Spain were to follow Greece, Ireland and Portugal into an international bail-out, it could be enough to bring down the euro.

Two figures sum up the dilemma Mr Zapatero found himself in. New unemployment data show that in the second quarter of 2011 the number of Spanish jobless dropped only slightly, to 21%, despite a busy tourism season as European holidaymakers shunned unsettled north African countries. That is still the worst rate in the European Union. It may get worse still towards the end of the year, as seasonal jobs disappear.

Spain remains in the front line of the euro zone’s debt crisis. Yesterday the spread on Spanish sovereign debt over German benchmark bonds reached 340 points, confirming that last week’s euro-zone summit, which agreed a second bail-out for Greece, did not mark an end to the single currency’s problems. This morning Moody’s, a ratings agency, warned it might soon downgrade Spanish debt.

Some analysts had suggested that calling an early election could help reduce pressure on Spanish debt. A recent editorial in the Socialist-friendly newspaper El País urging an early poll may also have had some influence on Mr Zapatero’s thinking.

His final decision will have been made jointly with Alfredo Pérez Rubalcaba, who will lead the Socialists into these elections after Mr Zapatero said earlier this year that he would not seek a third term in office.

This week a poll from the state-run Centre for Sociological Investigation (CIS) indicated that Mr Rubalcaba had begun to eat into Mr Rajoy’s lead, cutting it from ten percentage points to seven. If such a re-

sult were repeated at the election, Mr Rajoy would find himself at the helm of a minority government. He would have little trouble finding parliamentary support from business-friendly nationalist parties in Catalonia and the Basque country. But without a majority he might find it harder to enact major reforms to Spain's sluggish economy.

Mr Zapatero today said he aimed to complete his own set of reforms by September 26th and would pass new deficit-busting measures in mid-August. An early vote, he claimed, would help bring "political and economic certainty" to the fourth biggest economy in the euro zone. Many fear that if Spain were to follow Greece, Ireland and Portugal into an international bail-out, it could be enough to bring down the euro.

★ ★ ★ THE ECONOMIST / [LINK](#)

**B**ad news, stock-market bulls: Corporate insiders are selling their companies' shares at an abnormally fast pace.

In fact, one measure of that selling activity shows insiders of NYSE- and AMEX-listed companies recently were selling at the fastest rate since data began being collected in the early 1970s...

On the theory that insiders know more about their companies' prospects than do the rest of us, this is an ominous sign...

“... Is there any way for a bull to wriggle out from underneath the weight of these high readings? Perhaps, though it's not easy.”

One firm that gathers and analyzes the data is Argus Research, which publishes its findings in the Vickers Weekly Insider Report. One indicator that the firm calculates is a ratio of the number of shares that insiders have sold in the open market to the number that they have purchased.

In the week ending last Friday, according to the latest issue of the Vickers report, this sell-to-buy ratio stood at 6.43 to 1. This is higher than 95% of other weeks' readings over the last decade.

That's ominous enough, but consider last week's sell-to-buy ratio for just those issues listed on the NYSE or AMEX. That came in at 13.10 to 1, which is the highest reading for this ratio since when Vickers began collecting the data, which was October 1974.

Is there any way for a bull to wriggle out from underneath the weight of these high readings? Perhaps, though it's not easy.

One counterargument bulls can make is that it's entirely normal for insiders to sell when the market rallies, and therefore such selling does not carry particularly bearish significance.

But the stock market hasn't exactly been rallying all that strongly. To be sure, the latest sell-to-buy ratio reflects last week, not the current one, and that week did have a better tone than the current one — but not all that great a tone.

In any case, the other occasions in recent years in which the sell-to-buy ratio rose to close to the same level it is today were on the heels of more or less uninterrupted rallies over the previous two or three months. That's not the case now, of course, suggesting that insider selling this time around may not be so benign.

Another bullish counterargument is that the volume of insider transactions last week was light, as it usually is during earnings season. That's because insiders are either reticent to buy or sell their



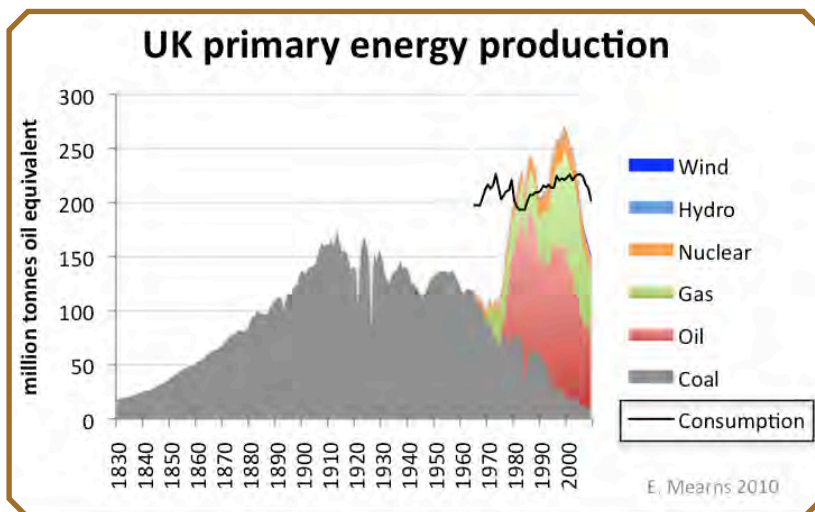
companies' shares in the days and weeks before their companies report earnings, for fear of being charged with acting improperly.

But I'm not sure how much weight to put on this argument. There still were several hundred firms with insider activity last week, and it's unclear why earnings season would have discouraged just those insiders who otherwise were interested in buying.

☆☆☆ MARKETWATCH / [LINK](#)

**T**he UK desperately needs a new energy strategy based on a realistic assessment of its assets, its needs and the options available to it. Unfortunately, its freedom for technical and financial manoeuvre is deeply restricted by its self-imposed Climate Change Act and its commitment to the EU's 20-20-20 targets. Its technically illiterate, if financially canny politicians and civil service do not appear to understand that the world's financiers are not likely to place the required £200 billion of long-term investment into their vision of a "low carbon" infrastructure while this concept remains so woolly and badly defined. If the UK government continues on this course, it will lead the country toward certain energy failure.

After hundreds of years of imperial and industrial power, the UK has suddenly become more or less powerless as a world player. With its North Sea resources fast depleting just when the world's upstream energy producers of oil, coal and gas are struggling to meet rising global demand, saddled with a public debt of £ 1 trillion, and a massive trade deficit, its leading role as an innovative, world-class centre of scientific and manufacturing know-how being ceded to Germany, Japan and now China, it is ill prepared to become a net energy importer. Yet energy import dependence is what the country is rapidly headed for.



[CLICK TO ENLARGE](#)

SOURCE: THE OIL DRUM

old today. This means that the country will be faced with an entirely new situation. In one way or another, Britain has been energy self-sufficient for most of the last five hundred years. The destruction of its forests for ship building and fuel, prior to the industrial revolution, came to an end with the invention of the steam engine and the exploitation of coal, which energized the industrial revolution. The empire-builders of the 19th century ensured secure commodity supplies, including hydrocarbons, by planting the Union Jack on an unprecedented fraction of the World's land surface.

☆☆☆ THE OIL DRUM / [LINK](#)

**H**OW did it come to this? Less than a month ago Rupert was holding court in the refined greenery of Holland Park's Orangerie where the News International summer party was held. David and Samantha Cameron raised a champagne toast to Rupert accompanied by a preening and

supplicant Labour Party leader Ed Miliband with his shadow chancellor Ed Balls.

Only Lord Sugar of The Apprentice was denied entry. He brazenly showed up hours after delivering a House of Lords speech urging the jailing of Murdoch and his NotW editor.

In all the miasma of lies, half truths, self-justifications, collective amnesia and verbal diarrhoea it's easy to forget that the beginning of the end for News International started with the British royal family. Having discovered the technique for hacking into the voice messages of mobile telephones in 2000, it was the NotW's royal correspondent Clive Goodman's eavesdropping on Prince William's

“... In all the miasma of lies, half truths, self-justifications, collective amnesia and verbal diarrhoea it's easy to forget that the beginning of the end for News International started with the British royal family...”

private secretary's messages that led to his arrest in 2006. A police investigation concluded that this was probably only the tip of the iceberg. Other victims included government ministers, MPs, military chiefs, premiership footballers and celebrities.

Prince William and other members of the royal family were dismayed when David Cameron appointed Coulson as his communications chief. In royal speak, the appointment led to “jaws on the floor”...

But in 2007 it was Goodman and private investigator Glenn Mulcaire who took the rap, going to jail for four and six months respectively. The rest of Fleet Street -- which had engaged in illegality on a smaller scale -- heaved a collective sigh of relief that both Scotland Yard and the Labour government acceded to the NotW contention that one rogue reporter paying Mulcaire for phone information was responsible for all the hacking.

When they were jailed in 2007 NotW editor Andy Coulson resigned. News International hired royal lawyers Harbottle & Lewis to investigate the hacking. The brief was exceedingly narrow. The conclusion was that there was no widespread abuse -- a contention now under investigation by police and government inquiries.

Coulson was hired as Tory leader David Cameron's director of communications, later entering Downing Street when Cameron formed a coalition government in May 2010. His position was shaky after sacked NotW showbusiness reporter Sean Hoare told The New York Times in September 2010 that Coulson had “actively encouraged” phone-hacking. He had always vehemently denied this. But after the NotW sacked senior editor Ian Edmonson for hacking the phone of actress Sienna Miller in January 2011, Coulson resigned his position.

Miller had taken the NotW to court and won £60,000 (€67,900) damages. Earlier publicist Max Clifford got an out-of-court settlement of £1m (€1.13m) and Gordon Taylor of the Professional Footballers' Association signed a confidentiality agreement after receiving £700,000 (€793,000)...

In the midst of the simmering volcano of evidence, Rupert Murdoch was poised to buy the majority of BSkyB for £10bn (€11.32bn). By the start of July he had squared the deal with politicians and was looking forward to the most lucrative deal of his extraordinary career...

★ ★ ★ IRISH INDEPENDENT / [LINK](#)

**L**et me lay to rest the bugaboo of what is called devaluation,” Richard Nixon told his fellow Americans on August 15, 1971.

The 37th President had just announced the US would “temporarily” close the gold window – ending the convertibility of Dollars into gold that had been key to the postwar Bretton Woods system.

What didn't change in 1971, though, was every bit as important as what did. Because the Dollar remained the world's reserve currency – a "privilege" that, four decades on, looks increasingly like a curse.

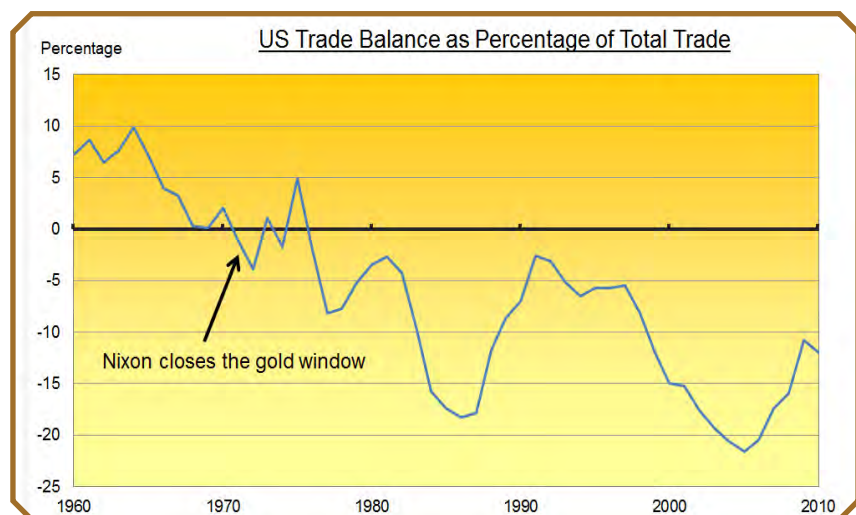
When he made his address, Nixon was keen to allay fears he was undermining the Dollar's value by cutting the link to gold – especially given the apocalyptic warnings (both in the press and inside the White House) of how disastrous such a move would be.

His pitch? "If you want to buy a foreign car or take a trip abroad, market conditions may cause your Dollar to buy slightly less. But if you are among the overwhelming majority of Americans who buy American-made products in America, your Dollar will be worth just as much tomorrow as it is today. The effect of this action, in other words, will be to stabilize the Dollar."

Any British viewers that day would have found it eerily reminiscent of prime minister Harold Wilson's "Pound in your Pocket" speech four years earlier. Nothing would change besides the entire monetary structure. And now, back to your scheduled programming with Bonanza.

Here in 2011, it's now been 40 years since the "temporary" suspension of Dollar convertibility. Has the Dollar been "stabilized"? Clearly not. But what's worth noting is how much faster the Dollar's domestic purchasing power has fallen in the last four decades – freed from gold – than it did in the 40 years before Nixon's announcement.

Between August 1931 and August 1971, the consumer price index – as measured by the Bureau of Labor Statistics – went up by 170%. Since 1971, the CPI has risen 453%.



[CLICK TO ENLARGE](#)

SOURCE: BULLIONVAULT / ST LOUIS FED

Of course, Nixon tried to spin his economic reforms – the gold window closure was accompanied by a wage and price freeze and a 10% import tariff – as necessary for "building the new prosperity". The logic was clear. A devalued Dollar, aided by the import tax, would increase America's international competitiveness, while wage and price controls would prevent these policies feeding through into higher inflation.

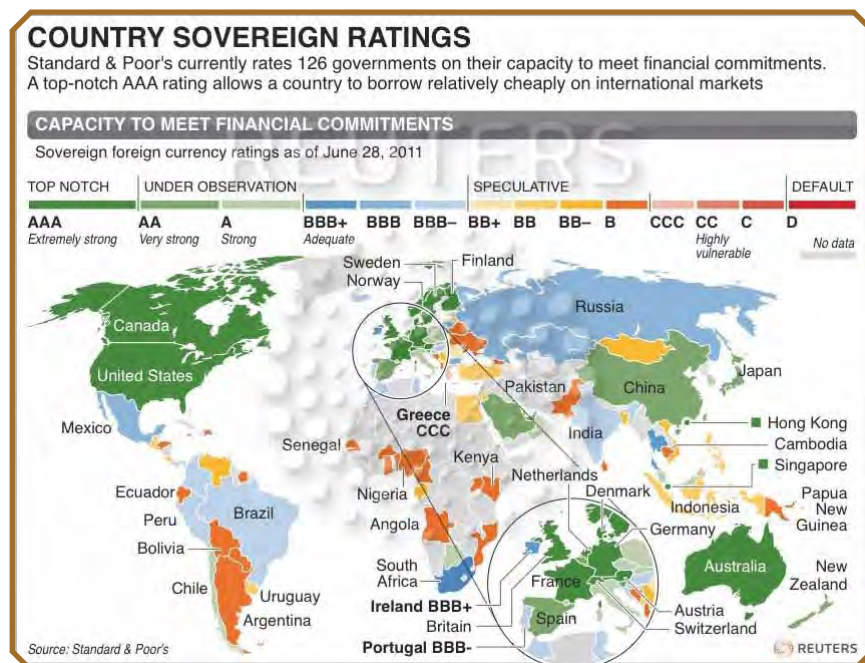
At least, that was the plan. As we know, it didn't turn out too well on the inflation front. But higher rates of inflation aren't the only phenomenon we've seen since the early 1970s. The irony is, Nixon hoped to solve another problem by closing the gold window – the US trade deficit.

"The United States has always been, and will continue to be, a forward-looking and trustworthy trading partner," he reassured the world on that fateful August evening. Within a minute, Tricky Dicky announced the 10% tax on imports.

Nixon hoped to improve America's trade balance. Indeed, that was one rationale behind devaluing the Dollar by de-pegging it from gold. But it didn't work:

★ ★ ★ DAILYRECKONING / [LINK](#)

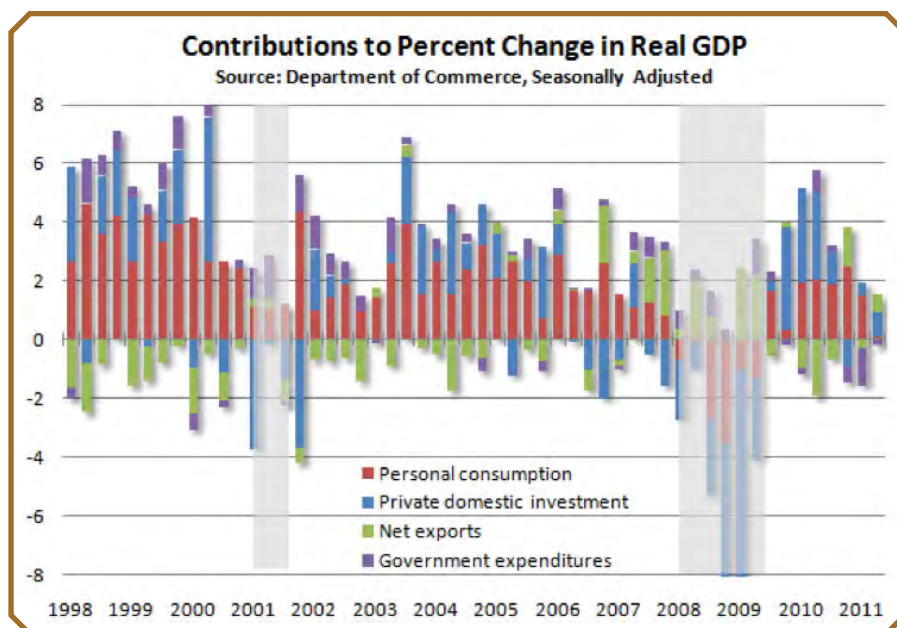
Just so you have it to hand, in case it becomes important at some point soon, here is a graphic representation of the world's sovereign credit ratings...



[CLICK TO ENLARGE](#)

SOURCE: REUTERS

Aside from the dismal overall readings on the U.S. economy during the first six months of 2011 ... the other important take-away from this morning's report on economic growth was the virtual absence of the once indefatigable American consumer as indicated by only the tiniest of red slivers in the right-most bar of the chart [left], the worst showing since the depths of the recession in 2009.



SOURCE: TIM IACONO

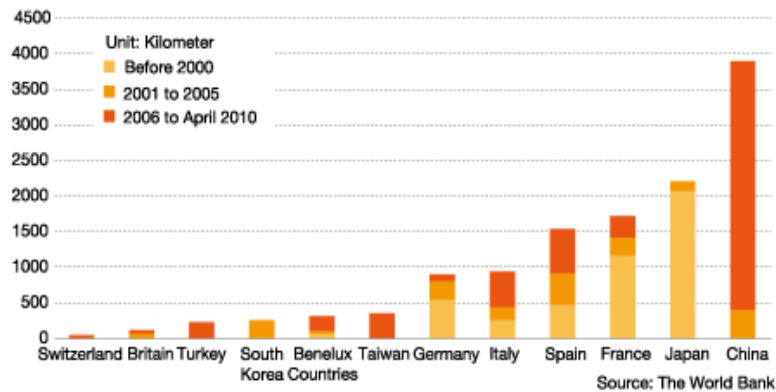
While there are those like myself who have long thought that personal consumption accounting for 70 percent of an economy was never a good idea (particularly when much of that spending was being done with borrowed money), at times like this, that point is made clear. As they continue to deleverage, slowly working their way out from underneath a big pile of debt, consumer confidence has been shaken in recent months, in no small part due to the realization of how over-leveraged they were and, in many cases, continue to be.

\*\*\* TIM IACONO / [LINK](#)



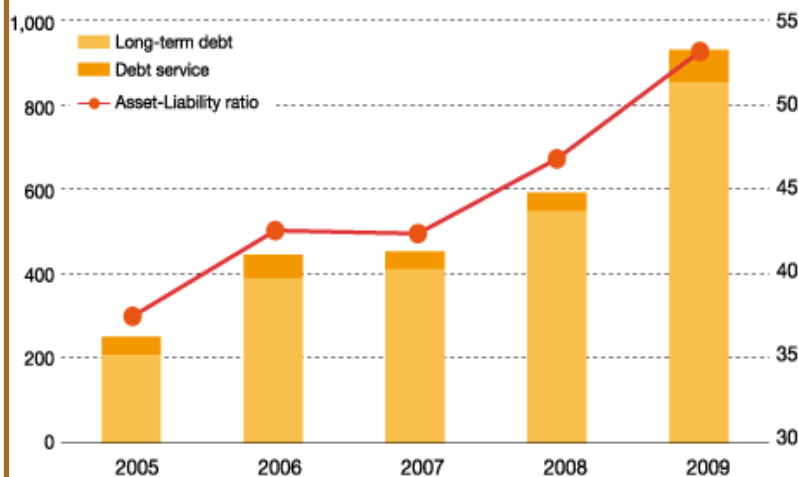
### CHINA'S RAPIDLY EXPANDING HIGH-SPEED RAIL SYSTEM

High-speed Rail Distance by Country / Region



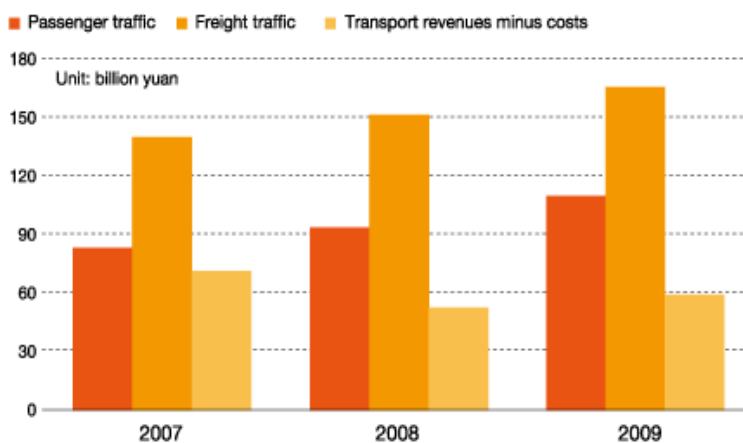
### SOARING DEBT

Ministry of Railways debt and asset-liability ratio, 2005 to 2009



### SLUGGISH REVENUE GROWTH

China Ministry of Railways revenues, 2007 to 2009



Source: Ministry of Railways

[CLICK TO ENLARGE](#)

SOURCE: CAIXIN

After the recent rail tragedy in China, a look at some of the figures surrounding the rapid expansion of China's High-Speed Network makes for interesting viewing...



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



[CLICK TO ENLARGE](#)

SOURCE: US DEBT

I received this link from several people this week and it is a beautiful illustration of just how completely absurd the debt levels in the United States (as proxy for the rest of the world) have become.

Take a look at this series of illustrations for some perspective on what these fanciful numbers that get bandied about actually mean in real terms...

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



[CLICK TO WATCH](#)

**E**uro Pacific Capital's Michael Pento is always entertaining and insightful and today he casts a critical eye over the debt ceiling situation - giving only a 30% chance of a deal going through due to the Republican Party's lack of any incentive to negotiate...



**E**ric Sprott and Jim Puplava discuss the precious metals markets and we get to listen in. Here's a taste of what's discussed:

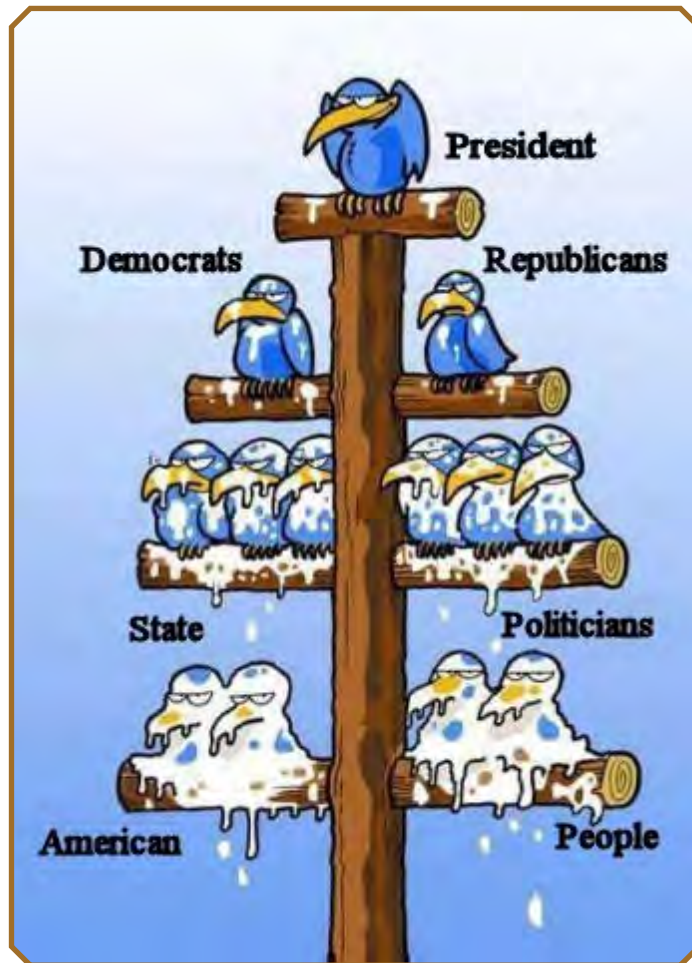


[CLICK TO LISTEN](#)

"... I think the actual data is there might be, in terms of bullion, there's only 1.5% – no, I'm sorry – 0.75% of the world's total financial assets is invested in bullion by people other than central banks, 0.75%! And, as you know, almost all gold produced is still around. So we're including all the gold that's ever been taken from the earth's crust. So to imagine it would go from 0.75% to 5% I mean that means people got to buy six times more gold. Well, there can't be six times more gold because all the gold we have has been produced over two thousand years..."

*and finally...*

**C**artoon perfection...



*Hmmm...*

**SUBSCRIBE**

**UNSUBSCRIBE**

**COMMENTS**

© THINGS THAT MAKE YOU GO HMMM..... 2011