THINGS THAT MAKE YOU GO

Hmmm...

A walk around the fringes of finance

"...at the core of our (the CFTC's) obligations is ensuring that markets don't become too concentrated."

– GARY GENSLER, *CHAIRMAN, CFTC*

"The increase in petrol prices don't affect me. I always just put £20 in my car."

– Lee Mack

"In fact, one thing that I have noticed . . . is that all of these conspiracy theories depend on the perpetrators being endlessly clever. I think you'll find the facts also work if you assume everyone is endlessly stupid."

– Brian E. Moore

Snoop Dogg leaned forward over the gargantuan console that spread out before him and pushed the button that allowed him to communicate directly with the rap artist behind the soundproofed glass wall that stood between the two men.

"That's hot right there, man. That's gangsta,"

The rapper, Doc Rendezvous, looked rather bemused but smiled back through the glass at his bling-clad friend.

Alongside Snoop Dogg in the studio that day were Quincy Jones and rap artists Talib Kweli and Soulja Boy – all of whom had gathered together to help Doc Rendezvous cut his debut single, 'Rocket Experience'.

> *"I'm the spaceman*
>
> *I'm the RocketMan*
>
> *It's time to venture far,*
>
> *Let's take a trip to Mars*
>
> *Our destiny is the stars"*

When the session was over, Doc Rendevous eased his weary 79 year-old body into his Chevy Corvair with the number plate 'Mars Guy' and disappeared into the Miami traffic.

Circumstance can often make for strange bedfellows and you'll do well to find a stranger pair than Calvin Cordozar 'Snoop Dogg' Broadus, Jr. and Edwin Eugene "Buzz" Aldrin, Jr., but, in the interests of Aldrin's non-profit foundation, ShareSpace, the two men came together to create **A LITTLE PIECE OF RAP HISTORY**.

Ever since he became the man who took the photograph of the first man on the moon (Neil Armstrong being afforded the privilege of a lifetime due not only him being a civilian, but by the simple fact that, upon landing on the surface of the moon, Aldrin would have had to climb over him to get out of the Landing Module first – bummer of a time not to call 'shotgun'), Aldrin has been fighting against those who claim the US Space Program and the Apollo 11 landings in particular, were the largest conspiracy theory in history.

At this point in the proceedings, I have to hold my hand up and admit that, until a few years ago, I was blissfully unaware that the veracity of the moon landings was even disputed. Once that fact was brought to my attention I began to read... and read...and read some more.

What I found were some amazing theories that seemed altogether ludicrous – until you started looking at the evidence. Now, before I lose many of you, I'd just like to state for the record, that I don't believe the landings WERE faked – but at face value, some of the evidence presented by the conspiracy theorists is at least enough to, well, make one go Hmmm.....

Identical backgrounds to different photos, crosshairs seemingly behind the objects they were centred on, flags fluttering in an environment where there was no wind – even an alleged sighting of a soft drink bottle by a woman in Perth Australia codenamed 'Una Ronald', all combined to throw some serious doubt into the minds of many. In fact, depending on the location of the poll, there are places in America where 28% of people believe the landings were staged. (For anybody NOT versed in this stuff, here is a fairly comprehensive intro: **APOLLO HOAX**?)

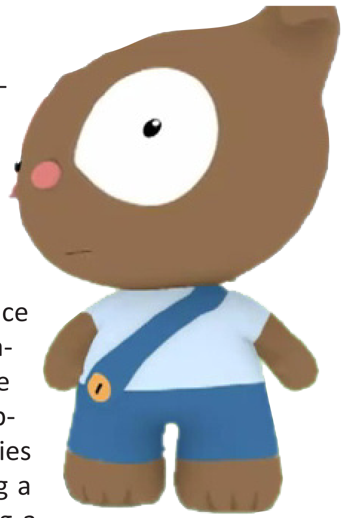
Now, I've got to believe that, if you're trying to get your conspiracy theory taken seriously, it isn't your BEST idea to get it endorsed by The Flat Earth Society (yes, seriously, they're still going. Do NOT get caught carrying a copy of 'Around The World in 80 Days' while waiting for one of THEIR meetings to start) but endorse it they did. They even went as far as to suggest the whole thing was staged by Walt Disney, based on a script by Arthur C. Clarke and directed by Stanley Kubrick. Personally, I'd have liked to have seen what Quentin Tarantino would have done with it but that's another story altogether.

Where am I going with this? Well it has been estimated that more than 400,000 people worked on the Apollo project over a ten year period. Hundreds of thousands of people—including astronauts, scientists, engineers, technicians, and skilled laborers—would have had to keep the secret. An impossible task, surely? But still the conspiracy theories remain alive and well. In fact, after Fox (who else?) aired a documentary entitled Conspiracy Theory: Did We Land On The Moon? in February 2001, that was watched by 15,000,000 viewers, the number of people who believed that a hoax had been perpetrated quadrupled.

When there is even a suspicion of a cover-up, it instantly requires proof beyond even the most unreasonable of doubts in order for the suspicions to go away. Invariably there is claim and counter-claim about even the most mundane of points as all involved go around in circles.

What is interesting about the Apollo hoax claims is the fact that, despite the obvious complexities of a cover-up of that magnitude, many people are willing to believe that such an operation was possible in the first place.

Which brings us to gold and, for the purposes of this note, silver.



Readers of these pages over the years are no strangers to the numerous conspiracy theories surrounding price suppression and market manipulation of the precious metals. The interesting thing is that the precious metals complex is a small one indeed when compared to the sheer number of people who took an interest in that 'one small step for mankind'.

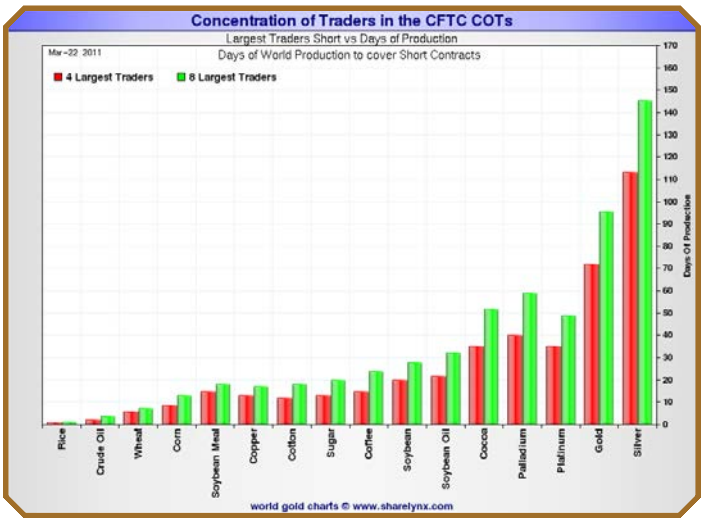
The various theories in play are too numerous to outline all in one place and, before we get too bogged down in paper gold derivatives pyramids, missing bullion in Fort Knox (see today's video excerpt on page 19), gold-plated lead bars or Central Bank manipulation intended to suppress the price of a golden alarm bell that rings loud whenever currencies are being manipulated, let's concentrate on the metal that is causing a LOT of interest of late - silver (for those of you interested in hearing a more in-depth explanation of the manipulation theories than we have room for here, courtesy of two cartoon bears, just search for 'Silver Bears' on YouTube - sorry; once bitten, twice shy). I have written previously at length (some would claim 'ad nauseum') about the structure of the silver futures market on the COMEX and the enormous short positions being maintained by the '4 or less' traders and the '8 or less' traders.

Since the bull market in silver began in 2001 with the price at a shade above $4, the '8 or less' trading institutions sold short increasingly larger amounts of silver contracts into rallies until their selling overwhelmed the market into correcting, at which point they would cover their shorts for a healthy profit and allow the rally to recommence. The presence of so-called 'tech-funds' who could be relied upon to trade in a predicted direction once certain stops were triggered or limits were breached made this particular version of the Martingale system as close to a sure thing as could be imagined. The strategy was so successful, and so transparent that 'locals' began to notice the patterns and front-run the bullion banks which not only shaved the odd percentage point off the top and bottom of the ranges, but, more importantly, soaked up precious supply as the capitulations came and went.

Many commentators (chief amongst them Ted Butler) insisted for years that the egregious short-selling of the largest traders was suppressing the price enormously and many column inches were spent shouting into a vacuum as Butler, in particular, lobbied the CFTC to investigate these allegedly manipulative practices.

But then, a few funny things happened on the way to the floor(um).

- The rapid expansion of the internet meant that commentators such as Butler were able to have their views heard by millions more interested parties which created – well, millions more interested parties
- Having fallen from $50, to $25, to $10 and then ultimately to around $4 where it had languished for the best part of ten years, silver became a popular bet for upside appreciation with the downside risk seemingly capped
- The massive reflation efforts after the crash of 2008 meant the Big Dog in the precious metals pound, gold, began to respond to the level of stimulus being injected into the economy and its traditional role as an inflation hedge was re-established - pulling silver along for the ride
- Butler's exhortations to the CFTC gained sufficient traction to result in a (to date) ongoing investigation into potential market manipulation



CLICK TO ENLARGE

SOURCE: CFR.ORG

Despite these developments,

the bullion banks continued to play the game they had played so successfully for 20+ years, and why wouldn't they? Ultimately, the game still worked – they just had to throw more resources at the strategy. On the surface, the sea was calm and the profits continued to roll in, but the short-selling needed to bring the price back into line became ever-larger and so beneath the surface the turbulence was building.

Late last year, with silver shorts among the '8 or less traders' totaling almost 150 days of global production (see chart, left), the quantum in the changing of the game picked up speed in a way nobody could reasonably have foreseen.

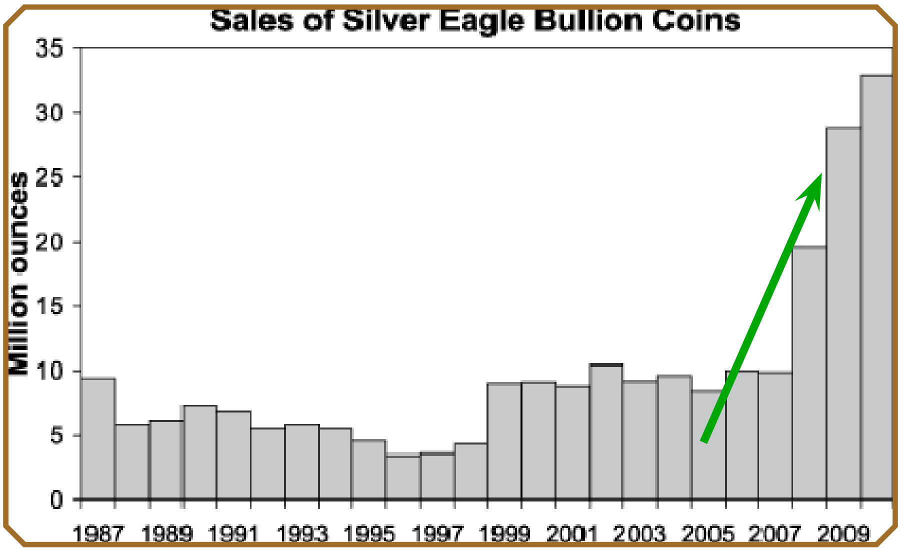
Within a remarkably compressed timeframe, JP Morgan (one of the '4 or less') announced it was closing its proprietary trading arm, Eric Sprott launched his Sprott Physical Silver Trust which was to take $500 million of physical silver off the open market, Ben Bernanke then cried Havoc! and let slip the 'Dogs Of More' when he confirmed QE2 in his speech at Jackson Hole, CFTC commissioner Bart Chilton (the regulator with the best hair on the planet) announced that he had seen 'repeated attempts' to influence silver prices and that '...there have been fraudulent efforts to persuade and deviously control that price' and finally, Max Keiser and his self-styled 'Silver Vigilantes' began an internet campaign to expose any fraud by corralling as many people as possible into buying physical silver.

SOURCE: BLOOMBERG

The stars had aligned perfectly for silver and, to put the icing n the cake, with the physical price of gold reaching levels that took it out of the affordable range of many investors, silver provided the perfect, low-priced substitute. Can't afford $1400 for an ounce of gold? Why not buy 60 ounces of silver for $1350 instead?

This was the last thing the bullion banks wanted. An explosion in physical demand was the Achilles Heel of the shorts and thus began the parabolic rise in the silver price that took it from $18 in August of 2010 to its current lofty perch at $37-and change (a move which brought the gold/silver ratio from 75:1 to under 40:1 (see chart, above). Incidentally, this ratio has averaged 15:1 over the past 2,000 years).

At this point in the proceedings, a look at the chart of silver eagle sales by the US Mint is educational in the extreme(chart, below):



SOURCE: FEDERAL RESERVE

So that's kind of how we got here; but where exactly are we?

There are many commentators for whom I have the utmost respect, who completely discount any silver conspiracy theories. They cite the fact that it would be impossible for the manipulation to be conducted in the way that the conspiracy theorists allege or that there are corresponding longs for every short, but yet answers from either the regulators or those supposedly involved in the manipulation are conspicuous by their absence. Let's face it - if this were a simple case of a misunderstanding it wouldn't take much in the way of evidence to clear it up now, would it?

Over the past several months, each time a futures contract has expired since the price break in silver began in earnest, the delivery situation has gotten progressively tighter until progressively closer to the wire and talk of a commercial signal failure has become progressively louder.

The number of people opting to take warehouse receipts for delivery on first notice day has been climbing and stocks in the various warehouses have been declining to the point that it has been touch-and-go as to whether there would be enough physical silver on hand in the warehouses to satisfy demand for delivery.

If, at some point in the (near?) future, time runs out and enough people stand for physical delivery, we will find out once and for all whether there is any truth to the manipulation/massive short position stories, and we will CERTAINLY discover how much physical metal there is available for delivery.

One thing is for certain; with industrial demand outstripping supply, huge additional investment demand from the likes of the Sprott Physical Silver Trust and SLV ETF (amongst others), rapidly increasing sales of silver bullion coins and a group of major currencies (dollar, yen, pound, euro) which are rapidly falling out of favour with investors and looking weaker every time their respective printing presses are called into action, if there ARE material naked shorts out there, or an extremely leveraged amount of paper claims on physical metal, we will find out in the same way that Hemingway described a man goes broke - slowly at first, then all at once.

The fact that this past week, JP Morgan has, in remarkably short order, received a vault license enabling it to store and take delivery of, amongst other physical commodities, silver (in effect making it able to 'deliver' into its own shorts), is just more grist to the conspiracy theorists mill but, for today at least, we shall leave it there.

Whichever way you look at it, like the Apollo landings, the smell of something untoward just won't go away. Armstrong and Aldrin setting foot on the moon was an event that defined a generation and yet, forty years later, they still have to fend off claims of impropriety. A conspiracy to manipulate the price of silver lower involves far fewer people and is ultimately fairly simple to prove or disprove. Which way this situation resolves itself is anybody's guess, but, as the old saying (almost) goes: where there's hoax, there's higher.

Leaving conspiracy theories aside for a moment, we have a diverse collection of stories competing for your attention today - starting off with an absolutely brilliant piece of work by two friends of mine; Paul Brodsky and Lee Quaintance of QBAMCO. I urge you to read their essay 'Apropos of Everything' - the first part of three - in its entirety by clicking the link at the end of the article and requesting a copy from Paul directly. It is an exceptional piece of work that will doubtless whet your appetite for more.

From there we hear how Caterpillar are being wooed by several suitors, discover that US consumers are using their savings to pay for basic items, take a look at Spanish 'ghost towns' and connect the dots between Anne Hatthaway's performance at the Oscar ceremony and HFT.

Jhn Hussman shares his thoughts on QE, the World Bank share their concerns for the global economy, Fortune magazine share their thoughts on silver and Robert Mugabe isn't in the mood to share anything - least of all his country's natural resources.

We share some truly nasty foreclosure figures, continue our silver theme with a look at the upcoming surge in industrial usage and find out how 25% inflation is hitting home in a country that gets its name from our metal of the day - Argentina

Charts, interviews and an incredible video from Japan round things out for today...

Contents

30 March 2011

US dollars are debt, technically (Federal Reserve notes) and in practice. Their ongoing value is supported by a system of government oversight that ultimately relies upon convincing private counterparties to use them in transactions. As all modern global currencies are directly or indirectly benchmarked to the US dollar, they too are unreserved debt, literally and functionally owed by sponsoring sovereign governments and backed by the full faith and credit of their taxpayers.

The fundamental question all global commercial counterparties must answer upon each transaction is: "will my currency maintain its purchasing power until the next time I need it?" If a quorum of economic counterparties begins to answer negatively, the currency in question will soon lose sponsorship and fail.

...Why can't central banks make everyone rich by printing and distributing more money?

The US government will sponsor about $2.7 trillion (after QE2) in base money (currency in circulation plus electronic bank reserves held at the Fed). Though we and many others continually note how much the quantity of base money has risen (up from about $850 billion in 2008), the newly-bloated quantity of base money still remains vastly insufficient to settle all dollar-based transactions. A generally-accepted system of credit extension and debt assumption has filled the void separating the quantity of base money and the perceived exchange of value for wages, goods, services and assets. This is a system of financial leverage posing as money. (See "Leveraged Debt".)

In economies allowing lenders to create credit (and thus systemic debt) with little regard for their own reserves, actual money needed to back that credit (to repay the debt) must be created in the future. The money simply does not exist when the credit is created. The more credit issued by the banking system, the wider the gap separating outstanding debt and the base money needed by borrowers to repay their obligations. It is a lending system that must either fail or that must destroy the purchasing power of the currency in which the debt is denominated. One may draw a straight line from a baseless money system to baseless credit, to boom and bust credit cycles, to overleveraged economies, to credit deflation and then monetary inflation, and finally to monetary system demise. Indeed, history shows a perfect record of destruction of monetary systems where assets and commerce are valued in baseless currencies.

Why can't central banks make everyone rich by printing and distributing more money? Because money that a central bank can create does not create wealth (sustainable purchasing power). New money may provide purchasing power to its bearer relative to the value perceived by sellers in exchange; however, an increasing money stock dilutes the purchasing power of each outstanding currency unit. Growth in the money stock has no impact on aggregate wealth and actually makes existing money holders poorer because their purchasing power gets diluted. In fact, aggregate global wealth cannot be created or destroyed at all, merely shifted.

PAUL BRODSKY & LEE QUAINTANCE, QBAMCO / **LINK**

The chairman and CEO of Peoria-based Caterpillar Inc. is raising the specter of moving the heavy equipment maker out of Illinois.

In a letter sent March 21 to Gov. Pat Quinn, Caterpillar chief executive officer Doug Oberhelman said officials in at least four other states have approached the company about relocating since Illinois raised its income tax in January.

"I want to stay here. But as the leader of this business, I have to do what's right for Caterpillar when making decisions about where to invest," Oberhelman wrote in the letter obtained Friday by the Lee

Enterprises Springfield bureau. "The direction that this state is headed in is not favorable to business and I'd like to work with you to change that."

Oberhelman said he's being actively courted to move.

"I have been called, 'cornered' in meetings and 'wined and dined' -- the heat is on," Oberhelman wrote. "Before, I never really considered living anywhere else and certainly never considered the possibility of Caterpillar relocating. But I have to admit, the policymakers in Springfield seem to make it harder by the day."

Cat spokesman Jim Dugan said the letter was designed to show Quinn that Oberhelman wants to be involved in finding solutions that benefit the company, which employs 23,000 people in Illinois.

"I view it as an olive branch to offer our help," Dugan said.

Quinn plans on discussing the letter with Oberhelman April 5 when the two meet at a conference in Peoria. The governor also plans on touring Caterpillar facilities at that time, spokeswoman Brie Callahan said Friday.

"The governor welcomes frank and open exchanges between the business community and government, and we are always open to new ideas that can help our businesses grow, innovate and create jobs," Callahan said.

Oberhelman didn't single out any specific problem with the state's policies in his one-page letter, but Dugan said the recent income tax increase -- signed into law by Quinn in January -- played a significant role in triggering the note.

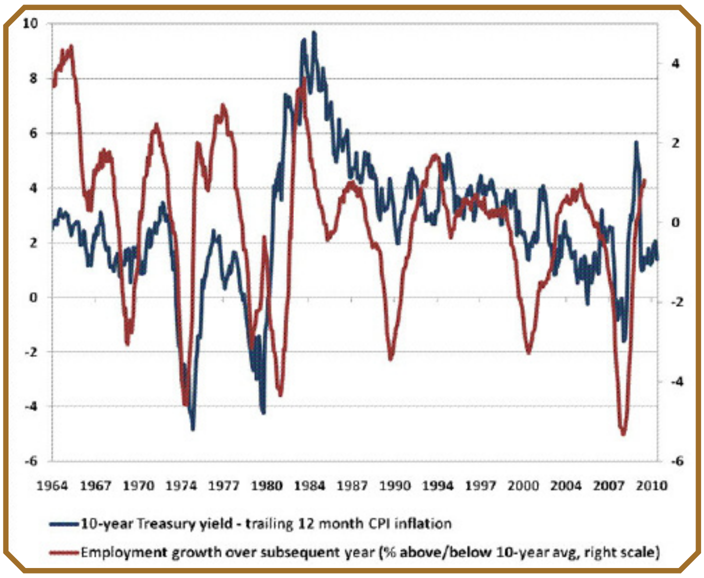
The tax hike has led to attempts by other states, including Wisconsin, Indiana and New Jersey, to try and poach companies that don't want to stay in the Land of Lincoln.

Oberhelman also sent along correspondence Cat has received from other states.

★ ★ ★ *PANTAGRAPH* / **LINK**

Last week, a number of Fed officials came out in tandem with essentially the same message - the Fed's policy of quantitative easing is likely to end with QE2. It's important to think carefully about the implications of this for the markets. My impression is that investors are still in something of a "momentum" mentality both with respect to the market and the overall economy, and it's not clear that they've pieced out the extent to which this has been reliant on various stimulus measures that are now drawing to a close.

It is clear that the effect of QE2 has not been to lower interest rates, or to materially expand credit. Rather, QE2 has been built on two blunt forces. The first is that increasing the stock of non-interest bearing money in the economy toward $2.4 trillion, all of which has to be held by somebody, the Fed has created a market environment that has raised the prices and lowered the returns on all competing assets in order to accommodate that equilibrium. As asset prices are bid up, their expected future returns fall, and the process stops at the point where on a risk-adjusted basis, no asset is expected to achieve returns that compete meaningfully with cash (at least over some horizon of say, a year or two). The second force has been purely rhetorical. The opening salvo in QE2 was Bernanke's public endorsement of risk-taking in the Washington Post. Strikingly, he has seemed to eagerly take credit for the speculation in the stock market, particularly in small cap stocks, while denying any culpability for the commodity hoarding and dollar weakness that predictably results from driving real short-term interest rates to negative levels.



SOURCE: HUSSMAN FUNDS

In our view, quantitative easing has been a reckless policy, not only because it has fueled what Dallas Fed president Richard Fisher calls "extraordinary speculative activity," but because aside from a burst of short-term optimism, the historical evidence is clear that fluctuations in stock prices have very little impact on real spending (the so-called wealth effect is on the order of 0.03-0.05% for every 1% change in stock prices). People consume off of perceived permanent income, not off of fluctuations in the prices of volatile assets. Now, it's true that QE2 has probably been good for a fraction of 1% in additional GDP, which should be sustained over a period of a year or two, and though we haven't observed real activity or actual industrial production that matches the optimism of survey-based measures such as the ISM indices, it's clear that some pent-up demand was released. Still, the links between monetary base expansion, stock values, and GDP growth are tenuous at best. The most predictable outcome was commodity hoarding, where our expectations have been fully realized, with awful consequences for the world's poor, not to mention for geopolitical stability.

JOHN HUSSMAN / **LINK**

Anne Hathaway is young, beautiful and excels in soppy romantic comedies. But while her puppy-dog-eyes bring tears to multiplexes worldwide, her performances are now being watched in a less familiar quarter: Wall St.

...Just imagine harried executives at struggling motor giant Ford, unexpectedly boosted by news of a new Indiana Jones sequel.

Traders barely noticed that the star of The Devil Wears Prada had hosted last month's Oscars, until blogger Dan Mirvish spotted an odd pattern: if Ms Hathaway is in the news, Warren Buffett's Berkshire Hathaway stock jumps too.

"On the Friday before the Oscars," he wrote, "Berkshire shares rose a whopping 2.02 per cent." And the Monday after they shot up 2.94 per cent more. Coincidence? Mr Mirvish thought not, and pointed the finger at confused robotraders – the complex algorithms that execute 70 per cent of stock trades, sometimes by scanning news stories for trends.

At first glance the theory looks unlikely. At around $127,000 a share, Berkshire stock is expensive and not often traded, insulating it from market fads. Nonetheless such celebrity autotrading could prove a joyous surprise for other lucky business leaders.

Just imagine harried executives at struggling motor giant Ford, unexpectedly boosted by news of a new Indiana Jones sequel. Or Rupert Murdoch, pleasantly amazed that, even though Megan Fox turned down Transformers 3, the mere story boosted his holdings.

If the "Hathaway effect" does hold, it must also be good news for the actress whose name it honours. Unions between aged billionaires and winsome starlets are much too weighted in the former's favour. Now thanks to the magic of algorithmic trading, Ms Hathaway's utterances put her in total financial control.

For Mr Buffett, however, the link is a disaster – his carefully honed reputation for "value investing" lies in tatters, overtaken by a namesake, barely aware of her ability to send the stock flying.

FT.COM / **LINK**

The price of the poor man's gold has doubled over the past year, putting it at a 30-year high. How long can it keep going?

The rally puts silver up 21% this year at a recent $37 and change – a level it hasn't seen since the Hunt brothers tried to corner the market in 1980. Responding to surging interest, the Chicago Mercantile Exchange recently raised margins on silver, forcing those who are financing their holdings to chuck in some more cash.

SOURCE: **FORTUNE**

Not that a mere margin adjustment is likely to stop the momentum in the most volatile precious metal.

"Silver gets untethered and it can just skyrocket," said Tom Winmill, who runs the Midas fund that buy stock in gold and silver producers. His Midas Perpetual Portfolio fund owns shares in both the SPDR Gold (GLD) and iShares Silver (SLV) exchange traded funds. "It could go anywhere from here now."

Why is silver so hot when gold is up just 1% for the year? Winmill says traders are crowding into the thin market for silver in a way not seen in years.

Like gold, silver benefits from the perception that irresponsible central bankers are intent on dooming paper currencies – a view that endures even as policymakers in Europe consider rate hikes and the Fed approaches the end of its unpopular bond-buying program.

But unlike gold, silver trades in a relatively thin market where prices are apt to spike when sentiment is positive and plunge when it isn't.

Even at the elevated prices prevailing now, the annual output of global silver mines is worth just $27 billion or so, says Winmill. That's the size of a good-sized but certainly not giant public company, such as, say, Dell (DELL). That means there is a small doorway for a huge number of people to squeeze through when silver gets hot.

"Imagine having the entire world speculate on what's going on at that one company," says Winmill. "That's what's going on lately in the silver market."

FORTUNE / **LINK**

The global economy is now facing four major risks: overcapacity in developed countries, mounting debt in Europe and the U.S., short-term international capital flows and inflation, said Lin Yifu, Senior Vice President and Chief Economist of the World Bank.

Lin added that that global GDP rose 3.9 percent in 2010, compared with the 2.2 percent decline in 2009, and a 3.3 percent rise is expected in 2011.

The growth rate of high-income countries in 2011 is estimated to be 2.8 percent, far below previous

...Recent surges in the prices of food, bulk commodities and oil will continue to present a risk to social stability.

growth rates after recessions. The average growth rate in developing countries in 2010 was 7.0 percent, much higher than their developed counterparts, he said. Economies like China and India will become the engines of growth in the global economy.

Lin said developed countries are still suffering from high unemployment rates, overcapacity in the real estate and manufacturing sectors and slow economic growth.

The second risk is that the high debt in some parts of Europe and the U.S., which might undermine the stability of global finance.

Thirdly, short-term capital is pouring into medium-income countries, pushing up exchange rates. This has the potential to dampen their growth prospects and create economic bubbles.

Recent surges in the prices of food, bulk commodities and oil will continue to present a risk to social stability.

Lin said all these risks are associated either directly or indirectly with overcapacity of developed countries. Increased social spending, stimulus plans and a shortage of state revenue create a dilemma for their recovery.

Yet Lin holds a favorable view of China's development. He expects China to stay at an average annual growth rate of 8 percent for 20 years. The size of its economy will be double that of the U.S. if measured by purchasing power parity.

But Lin added that China needs to solve the problem of structural imbalances and continue to develop its financial institutions, natural resources and services industry.

★ ★ ★ *CAIXIN* / **LINK**

Americans' savings rate dropped last month as new figures showed that consumers are using more of their disposable income to cope with the rising cost of food and petrol.

The savings rate declined to 5.8pc in February from 6.1pc in January, as incomes rose a smaller-than-forecast 0.3pc on the month, the Commerce Department said.

In a blitz of data at the start of the week, a separate report showed that consumer spending climbed 0.7pc last month, a better number than forecast, which was welcomed by markets.

Sharp increases in the cost of food and petrol are tempering some of the optimism about a pick-up in growth that many on Wall Street began the year with.

While most economists still expect the world's biggest economy to beat the 2.9pc growth it recorded in 2010, few believe consumers can now match this quarter the performance they put in last quarter when their spending grew at the fastest rate since before the crisis.

"The data provide yet more evidence that higher prices are denting economic growth," said Paul Dales, senior US economist at Capital Economics.The reports from the Commerce Department showed that once adjusted for inflation, disposable incomes fell 0.1pc in February, their first drop since September.

Food prices had their steepest rise since the 1970s in February, while, at $3.58 per gallon, gasoline is now at a more than two-year high.

The hope is that the spike in gasoline and food prices proves temporary, and that an improving labour market encourages consumers to maintain their spending.

Figures due on Friday are expected to show that companies hired 160,000 new workers in March, adding to evidence that employers are feeling more confident.

With most European governments cutting their spending to bring down their budget deficits this year, experts say an acceleration in US growth has become more important to the global economy.

★ ★ ★ *UK DAILY TELEGRAPH* / **LINK**

Half-finished developments languishing amid dust and weeds reveal the scale of a burst property bubble Spain will take years to recover from.

Sightseers come to Spain for the Alhambra, the Gaudis, the beaches. But Spaniards talk about a new set of landmarks, a kind of tourist anti-attraction. You can find them clustered on the outskirts of big cities and around holiday resorts, in Madrid and Valencia. They are half-completed housing estates, often vast areas of empty flats and foundations and property-developers' hubris. Now they are nearly deserted. The Spanish call them ciudades fantasma: ghost towns.

Anyone who wants to understand the challenges facing Spain – and by implication the rest of the eurozone – should visit one. Take the route I did, to a place called Valdeluz in Guadalajara. It's easy enough: board the fancy high-speed train from central Madrid to Barcelona and get off half an hour later. If my experience is anything to go by, only a handful of passengers will spill out on to what is a nearly new station. And there, beyond the bored security guards and the metal railings is … nothing. Another platform for cheap commuter trains, completed but never used, and then acres of red dust and weeds.

Valdeluz was meant to be a dormitory town, with 9,500 houses for nearly 30,000 residents. But the lead developer hit the rocks a couple of years ago, with only around 1,500 units completed and 700 people moved in.

Joaquín Ormazábal is one of those Valdeluz residents. Forty-four years old and separated from his partner, he bought a three-bed flat in the development four years ago for €240,000 (£211,000). Four years later, it's now worth less than €140,000.

His black Mazda is the only car on the road up to Valdeluz. As we go, he points out the sights we should be seeing but that were never completed.

That side, a parking lot for 2,000 cars (nothing). Over there, a shopping mall (less than a storey completed). A school (with 300 pupils rather than the intended 1,700). Every so often a couple of residents walk by, but the development is so empty they look more like middle-aged squatters.

"We thought the Spanish property market was one giant party, in which prices would always go up and up and up," Ormazábal says. Parking on a hill, we look down at a giant plot of land that is only a quarter built. It's a vast rut from which for the foreseeable future homeowners will not be able to move without losing 40% or 50% of their equity. "Some mornings I feel like such an idiot." As a joke, he mimes sticking a knife into his chest.

★ ★ ★ *UK GUARDIAN* / **LINK**

Zimbabwe's government will make sure foreign companies are "junior partners" in the country, President Robert Mugabe said after the state published regulations to take 51 percent of foreign-operated mines.

"We are taking back our country," Mugabe said yesterday in the capital, Harare. "Listen, Britain and

...“We are taking back our country,” Mugabe said yesterday

America, this is our country. If you have companies which would want to work in our mining sector, they are welcome to come and join us, but we must have our people as the major shareholders.”

Anglo American Plc and Rio Tinto Plc “must transform and become Zimbabwean,” the 87-year-old leader said.

Zimbabwe, which has the world’s second-biggest platinum and chrome reserves after South Africa, said in a March 25 decree that foreign mining companies must explain within 45 days how they’ll cede 51 percent of their local assets to “indigenous” Zimbabweans. The companies have six months to sell the stakes, it said. The regulations are in line with the Indigenization and Economic Empowerment Act, signed into law three years ago.

“It’s another dimension to the struggle,” Mugabe said. “Let that lesson go deep.” Investors should “come as friends, not as masters and superiors,” he said.

★ ★ ★ *BLOOMBERG* / **LINK**

The amount of silver used for industrial purposes is forecast to rise to 665.9 million troy ounces by 2015, which would be a 36% increase from the 487 million used in 2010, according to a report from the Silver Institute released Monday.

The report, The Future of Silver Industrial Demand, was produced on behalf of the Silver Institute by the precious metals consultancy GFMS Ltd. Industrial use of silver accounts the largest share of annual fabrication demand, the Silver Institute said.

...The report identifies 11 still-new applications for silver, ranging from food packaging to radio identification tags to auto catalysts, which collectively could exceed 40 million ounces of industrial demand by 2015

The “base case” forecast from GFMS is predicated on what the consultancy sees as the most likely outcome for the global economy, the consultancy said.

“The report demonstrates how buoyant silver industrial demand is, not only because of the lack of substitution, but also because of the wide range of established and growing new uses that make up industrial demand,” said Michael DiRienzo, executive director of the Silver Institute. “This report maintains that we expect to see robust gains in industrial silver demand over the next five years, further emphasizing silver’s essential role in industry.”

The report identifies 11 still-new applications for silver, ranging from food packaging to radio identification tags to auto catalysts, which collectively could exceed 40 million ounces of industrial demand by 2015, said the Silver Institute.

The report also said that stronger silver industrial demand in the U.S. and Asia will be a key factor driving growth through 2015, with healthy developing-country demand especially in markets such as China and India.

Much of the forecast growth will come from established applications, such as silver’s use in electrical contacts and in the photo-voltaic market, the report said. The “technical proficiency of silver” limits the ability to switch in favor of lower-cost alternatives, making the metal largely price inelastic, the Silver Institute said.

The report recounted steady growth in industrial demand for silver for two decades now, interrupted only briefly by financial-market weakness in 2001 and 2008. Back in 1990, this demand stood at 273 million ounces, meaning it has already grown by 78% to 2010.

"Although it is important not to overlook the contribution from 'new' industrial uses of silver, it is also apparent that much of the growth in the global total will be driven by stronger demand for a number of established uses...," the report said.

KITCO / **LINK**

A decade after it defaulted on $95 billion of bonds following a four-year recession, Argentina is again witnessing an upsurge in inflation, Bloomberg Markets magazine reports in its May issue. While official numbers put the rate at about 11 percent, independent economists estimate that the number may be about two and a half times as high.

That would place Argentina second only to Hugo Chavez's Venezuela, where the International Monetary Fund estimated in October that prices rose 33.3 percent last year, the highest in the world.

Accelerating spending by President Cristina Fernandez de Kirchner's government is stoking prices, economists say. Outlays on everything from highway construction to pensions climbed 37 percent last year from 2009 -- and increased 39 percent in January of this year alone. Fernandez's largesse is made possible in large part by the global commodities boom.

Foodstuffs such as soybeans, wheat and flour accounted for about 70 percent of the country's export revenue in 2010, according to Agritrend SA, a Buenos Aires-based research company.

Export tax revenue, led by a 35 percent levy on soybeans, rose 11.2 percent in February from a year earlier to 3 billion pesos ($740 million).

Argentina's 40 million people are spending, too -- as a way to protect themselves from rising prices. They're buying everything from flat-screen televisions to cars and even property. Sales of such goods as home appliances, toys and clothing soared 39.5 percent in December from a year earlier, the biggest increase for that month since at least 1998. Auto sales gained 43.3 percent in unit terms, the most since 2004.

Demand for construction supplies such as cement, steel and paint was up 20 percent in December. Consumption helped push economic growth to 9.2 percent last year from 0.9 percent in 2009. Fueling that growth -- and inflation -- is government support for annual wage increases of 30 percent or more.

SAN FRANCISCO CHRONICLE / **LINK**

New data released by Lender Processing Services (LPS) Monday show that while delinquencies continue to decline, an enormous backlog of foreclosures still exists with overhang at every level.

As of the end of February, foreclosure inventory levels stood at more than 30 times monthly foreclosure sales volume, indicating this backlog will continue for quite some time, according to LPS.

Ultimately, these foreclosures will most likely reenter the market as REO properties, LPS notes, putting even more downward pressure on U.S. home values.

The company reports that the average U.S. loan in foreclosure right now has been delinquent for a record 537

days. A full 30 percent of loans in foreclosure have not made a payment in over two years.

Still, LPS says its data show that banks' modification efforts have begun to pay off, as 22 percent of loans that were 90-plus-days delinquent 12 months ago are now current.

February's data also showed a 23 percent increase in Option-ARM [adjustable-rate mortgage] foreclosures over the last six months, far more than any other product type.

In terms of absolute numbers, Option-ARM foreclosures stand at 18.8 percent, a higher level than subprime foreclosures ever reached, LPS said.

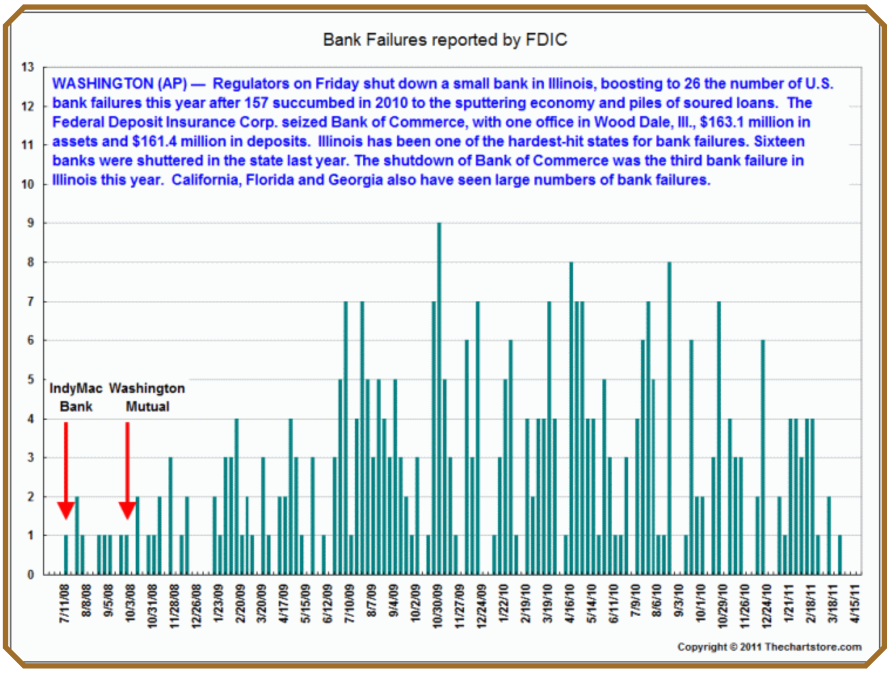
In addition, deterioration continues in the non-agency prime segment.

According to LPS' report, both jumbo and conforming non-agency prime loans showed increases in foreclosures and were the only product areas with increases in delinquencies.

LPS reports that the total U.S. loan delinquency rate stood at 8.8 percent as of the end of February. The U.S. foreclosure inventory rate hit 4.15 percent.

By the company's calculations, there are a total of 6,856,000 mortgages in the United States that are considered non-current.

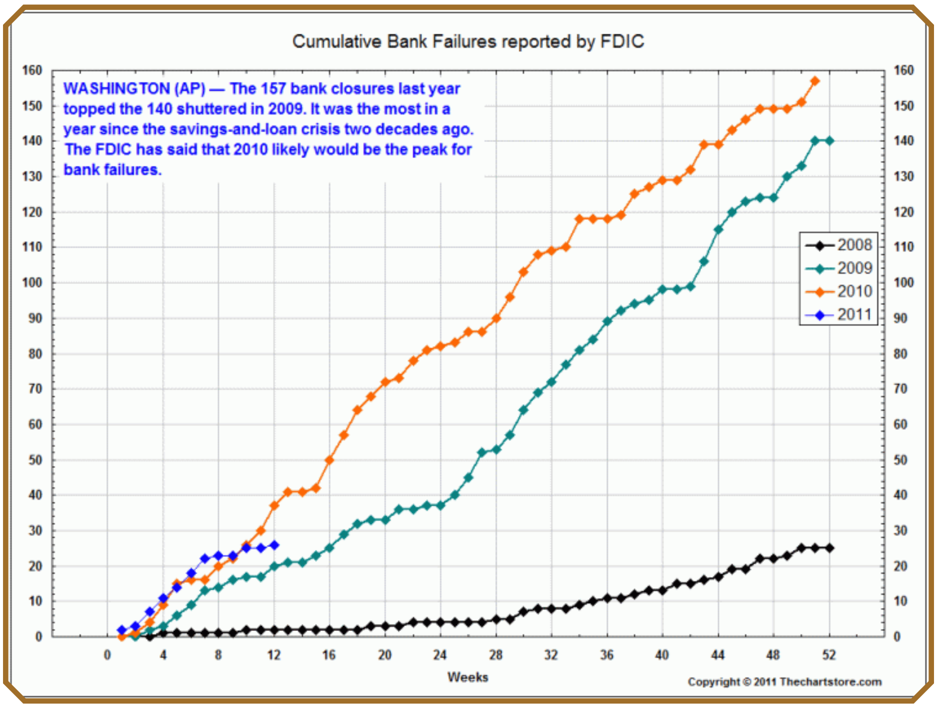
DSNEWS / **LINK**



CLICK TO ENLARGE

SOURCE: THE CHART STORE

2011 is another year, and that means another set of bank failures to collate and quantify. Already we're in the 20s for 2011 and these charts from Ron Griess of The Chart Store give us the perspective we need.



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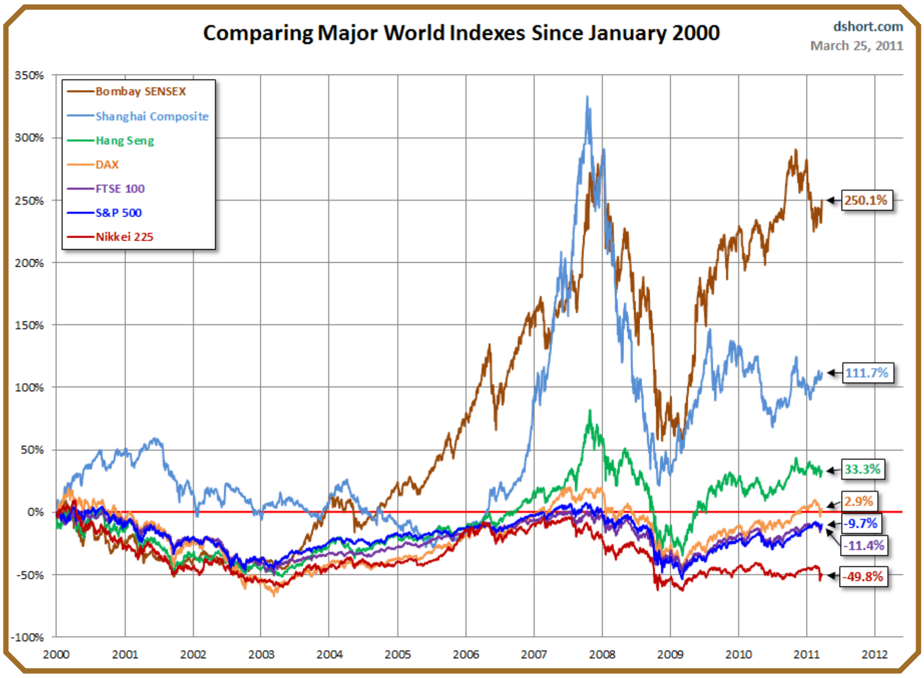
SOURCE: THE CHART STORE



CLICK TO ENLARGE SOURCE: DOUG SHORT

What a difference

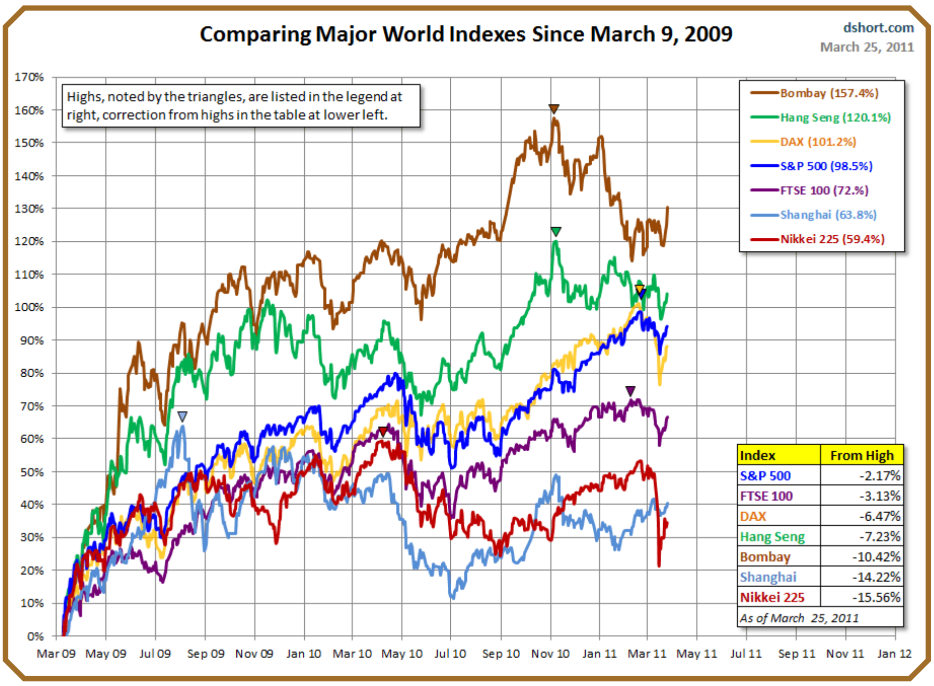
a week makes! All the markets made substantial gains, and some more than made up for last week's loss. Since Friday, March 11th, the Bombay SENSEX is up 3.53%, the Shanghai 1.50%, the FTSE 1.24%, and the S&P 500 is up 0.73%. The DAX and Hang Seng are down fractionally over the same time frame, -0.50% and -0.39% respectively.

The Nikkei, on the other hand, despite a strong week of recovery, is down 7.00% since the March 11 close and down 8.61% since the day before the tragic earthquake.

Here is a side-by-side comparison of the current weekly performance table with the one from last week.

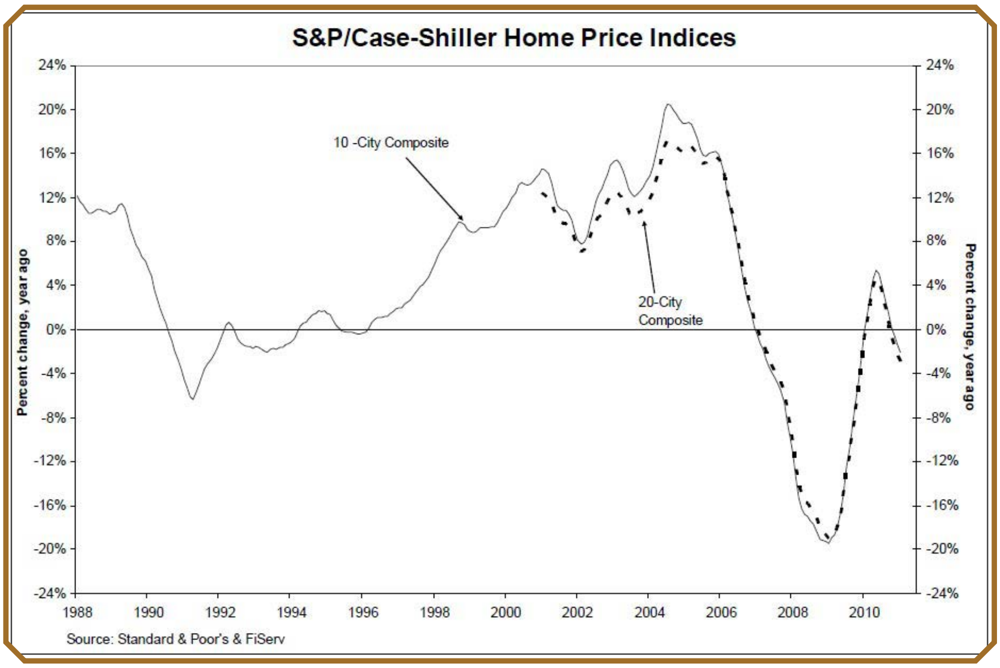
The chart below illustrates the comparative performance of World Markets since March 9, 2009. The start date is arbitrary: The S&P 500 and Bombay SENSEX hit their lows on March 9th, the Nikkei 225 on March 10th, the DAX on March 6th, the FTSE on March 3rd, the Shanghai Composite on November 4, 2008, and the Hang Seng even earlier on October 27, 2008. However, by aligning on the same day and measuring the percent change, we get a better sense of the relative performance than if we align the lows.

DOUG SHORT / **LINK**



CLICK TO ENLARGE SOURCE: DOUG SHORT

"Data through January 2011, released today by Standard & Poor's for its S&P/Case-Shiller Home Price Indices, the leading measure of U.S. home prices, show further deceleration in the annual growth rates in 13 of the 20 MSAs and the 10- and 20-City Composites compared to the December 2010 report. The 10-City Composite was down 2.0% and the 20-City Composite fell 3.1% from their January 2010 levels. San Diego and Washington D.C. were the only two markets to record positive year-over-year changes. However, San Diego was up a scant 0.1%, while Washington DC posted a healthier +3.6% annual growth rate. The same 11 cities that had posted recent index level lows in December 2010, posted new lows in January."... "Keeping with the trends set in late 2010, January brings us weakening home prices with no real hope in sight for the near future" says David M. Blitzer, Chairman of the Index Committee at Standard & Poor's. "With this month's data, we find the same 11 MSAs posting new recent index lows. The 10-City and 20- City Composites continue to decline month-over-month and have posted monthly declines for six consecutive months now.



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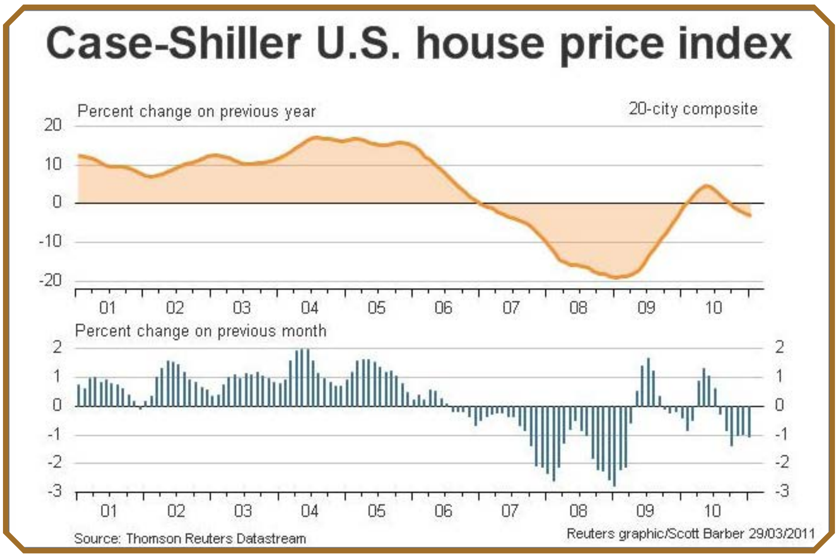
SOURCE: STANDARD & POORS



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SOURCE: STANDARD & POORS

"These data confirm what we have seen with recent housing starts and sales reports. The housing market recession is not yet over, and none of the statistics are indicating any form of sustained recovery. At most, we have seen all statistics bounce along their troughs; at worst, the feared double-dip recession may be materializing.

★ ★ ★ *CASE SHILLER* / **LINK**

CLICK TO WATCH

This is G. Edward Griffin, author of "The Creature From Jekyll Island."

I hate to do this to you twice in a week, but there's some more Glenn Beck coming your way today.

This is the remainder of the clip I included over the weekend. In it, Beck talks to Griffin about his book and also ~~Michael~~ Mark Calabria of the Cato Institute who weighs in on QE and bubbles in general.

Oh, I have to say, contrary to Beck's opinion, I have never seen an audience less ready to 'pounce' than this one.

Regular contributor Jim Rickards is back and this time he talks to Eric King about the deficit, QE2, the disasters in Japan and explains what question he would ask Ben Bernanke, given the chance.

CLICK TO LISTEN

CLICK TO WATCH

Eric Sprott provides the perfect bookend to this edition of Things That Make You Go Hmmm..... as he explains the math behind his assertion that, as far as silver goes, there really is nothing left...

The tsunami in Japan seems like a lifetime ago already but this video, which has been doing the rounds this week, is truly staggering.

Many of you will have seen this before and I try to studiously avoid putting things on this page that are most likely in your inboxes already, but this is worth including on the off-chance that a few subscribers haven't witnessed the awesome power of nature that was witnessed in Sendai recently...

CLICK TO WATCH

Hmmm…

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