THINGS THAT MAKE YOU GO Hmmm...

A walk around the fringes of finance

"I feel like we are in the Jurassic Park movie, seeing the water glasses on the dashboard shaking, with the heavy footfalls of T-Rex and the sounds of its breathing moving around us in the night. We just do not know which direction it is coming from, and where it is going."

– JESSE

"Of course, with the increasing number of aeroplanes one gains increased opportunities for shooting down one's enemies, but at the same time, the possibility of being shot down one's self increases."

– Baron Manfred von Richthofen

"Inflation is also just another word for default, but it sounds so much better to the ear."

– John Mauldin

Ok folks - today we're going on something of a journey so stick with me.

This week in 1918, one of the most famous fighter pilots the world has ever known was shot down near Amiens in France. Despite being hit in the chest by gunfire from the ground, he managed to execute a perfect landing before dying in the cockpit.

During World War 1, Baron Manfred Albrecht *Freiherr* von Richthofen was officially credited with 80 air combat victories - more than any other pilot - and created for himself a legend that has endured for the best part of a century.

Originally a reconnaissance officer for the cavalry regiment, von Richthofen transferred to the air force in 1915 when he realised that, due to machine guns and barbed wire, the days of the cavalry officer as an effective soldier were somewhat numbered.

Upon joining Jagdstaffel 2, one of Germany's best-known Luftstreitkräfte, von Richthofen had a chance encounter with Oswald Boecke, Germany's reigning 'ace' fighter pilot, who saw something in the young man that he recognised and so had him transferred to Kampfgeschwader 2 in March of 1916. Boecke's judgement seemed a little off at first as von Richthofen struggled to adjust to his Albatros C.III aircraft, but, on April 26, 1916 in the skies over Verdun, France, he shot down his first enemy aircraft, though he received no official credit.

von Richthofen's first official 'kill' would come almost five months later in a battle over Cambrai - a battle that would claim the life of his mentor, Boecke.

von Richthofen wanted to commemorate his first confirmed victory and so he commissioned a Berlin jeweller to fashion him a cup made of solid silver which bore the date and location of the battle as well as the type of aircraft he had downed in aerial combat.

As the battles and the number of von Richthofen's victims mounted, he amassed a collection of some 60 of these solid silver cups - each bearing testimony to another aerial victory - until the dwindling supply of silver in blockaded Germany meant that the precious metal was reserved for strictly industrial use.

Rather than accept cups made of pewter or another base metal, von Richthofen discontinued his orders as he simply refused to compromise on his desire to take delivery of only pure silver.

Even at the height of 'the war to end all wars', the desire to own real silver was evident.

von Richthofen's skill ensured that he was installed as the leader of the elite Jasta 11 fighter squadron - a group containing Germany's most adroit and successful pilots and, upon being given this particularly prestigious post, he took the flamboyant step of painting his Albatros bright red. It was von Richthofen's exploits in this red fighter plane that subsequently earned him the sobriquet The Red Baron.

Following his lead, the other pilots in The Red Baron's squadron took to painting parts of their own fighters in bright red - partly to make their leader less conspicuous and partly as a celebration of their continuing success. Other squadrons soon adopted this practice - each adopting their own 'colours' - as the Luftsreitkräfte became renowned and revered in the skies across Western Europe.

von Richthofen's unit was a deadly force. Highly-skilled, incredibly mobile and battle-hardened, their ability to be directed at short notice to any part of the battlefield allied to their technicolour appearance earned them the nickname 'The Flying Circus'.

Fifty-one years after the end of WWI, on 7 September, 1969, a group of Oxford and Cambridge University students in England recorded the first episode (of an eventual 45) of a new BBC comedy series at Television Centre in West London. Twenty-eight days later it was broadcast to great acclaim and a new 'Flying Circus' was born - that of Monty Python. The show was to change the face of comedy for generations to come.

John Cleese, Michael Palin Eric Idle, Graham Chapman, Terry Jones and Terry Gilliam wrote some of the most iconic sketches of all-time during their golden years between 1969 and 1974 and, while much of the Pythons' humour was hit and miss, perhaps their most famous sketch was written by John Cleese and Graham Chapman and first performed in the eighth episode of the show's first series, "Full Frontal Nudity" (7 December 1969).

The sketch portrays a conflict between disgruntled customer Mr Praline (played by Cleese) and a shopkeeper (Michael Palin), who hold contradictory positions on the vital state of a "Norwegian Blue" parrot.

From Wikipedia:

The "Dead Parrot" sketch was inspired by a "Car Salesman" sketch that Palin and Chapman had done in How to Irritate People. In it, Palin played a car salesman who repeatedly refused to admit that there was anything wrong with his customer's (Chapman) car, even as it fell apart in front of him. That sketch was based on an actual incident between Palin and a car salesman.

In Monty Python Live at Aspen, Palin said that this salesman "had an excuse for everything."

Today, the world has replaced Messrs.. Cleese, Chapman, Palin, Gilliam, Idle and Jones with a new 'Flying Circus'. Their names are, for the most part, equally well-known and, sadly, becoming evermore identified with high comedy as they try to convince the world that the dollar is, actually, in rude health.

Ladies and gentlemen, I give you 'Ben Bernanke's Flying Circus' - starring Ben Bernanke, Timothy Geithner, Janet Yellen, Bill Dudley, Charles Plosser, Richard Fisher & featuring Barack Obama.

This week, the dollar's demise accelerated noticeably after S&P's 'unexpected' outlook downgrade on Monday as the DXY broke through the 74 level in a hurry:

On Thursday, the dollar index, a gauge of the U.S. currency against six advanced country currencies, fell to 73.735, its lowest level since August 2008, setting up a possible run toward its record low of 70.698 touched in March 2008. The euro soared to a 16-month high above $1.46. (Reuters)

..."We believe there is at least a one-in-three likelihood that we could lower our long-term rating on the U.S. within two years..."

Fortunately, the man from the Ministry of Silly Talks (Python fans will get the joke), Tim Geithner, played pet shop-keeper when asked whether the downgrade warnings from S&P may result in the US losing its AAA credit rating in this exchange with Peter Barnes of Fox Business News:

> *Barnes: "Is there a risk that the United States could lose its AAA credit rating? Yes or no?"*
>
> *Geithner: "No risk of that."*
>
> *Barnes: "No risk?"*
>
> *Geithner: "No risk"*

S&P differed in their assessment of the likelihood of such a downgrade, however.

According to the text of their press release:

> *"We believe there is at least a one-in-three likelihood that we could lower our long-term rating on the U.S. within two years..."*

It would appear, to even the most casual of observers, that we have something of a difference of opinion here.

Now, I know the ratings agencies' reputations are somewhat tarnished from the events of the past few years, but is there any reason that Secretary Geithner's reputation should be above reproach simply because he is the Treasury Secretary? Back in November of 2010, Geithner had this to say at a meeting in Kyoto, Japan, of finance ministers from the Asia-Pacific Economic Cooperation group.

"I'm happy to reaffirm again that a strong dollar's in our interest as a country."

> *"We will never use our currency as a tool to gain competitive advantage... I'm happy to reaffirm again that a strong dollar's in our interest as a country."*

Since then, the dollar has declined 8% in value (or 16% if measured against the most sanguine of barometers - gold):

SOURCE: BLOOMBERG/TTMYGH

SOURCE: BLOOMBERG/TTMYGH

Clearly seeking a place in the new Flying Circus this week was Japanese Finance Minister Yoshihiko Noda who, in the wake of the S&P announcement, was delighted to tell the world that:

> *"The United States is tackling fiscal issues in various ways, so I think U.S. Treasuries are basically an attractive product for us"*

Errr... *what*, now?

Noda-san, please, what ARE these 'various ways' of which you speak? It seems to me that the next 'way' set to be employed will the raising of the debt ceiling in a few short weeks which will give the US room to add even MORE debt to their crumbling edifice. Nothing particularly new or varied there. Perhaps you mean QE3 (which, in this edition of Things That Make You Go Hmmm....., the great Jim Grant explains is coming, ready or not)? But that doesn't REALLY come under the category of 'various ways' now, does it? After all - the fact that it's the third iteration of something pretty much defines it as somewhat homogeneous, surely?

Over in China, however, things took a turn for the interesting when PBOC governor, Zhou Xiaochuan, in the wake of the announcement that China's foreign exchange reserves had crossed the $3 trillion barrier, had a few things to say of his own:

> *"Foreign-exchange reserves have exceeded the reasonable levels that we actually need...The rapid increase in reserves may have led to excessive liquidity and has exerted significant sterilization pressure. If the government doesn't strike the right balance with its policies, the build-up could cause big risks..."*

> *"One option is to consider some new types of investment agencies which focus on new investment areas... [i]t's inappropriate for me to detail the next stage of the plan, but the direction is clear."*

But then, just as it looked as though Zhou was striking out on his own and leaving the Flying Circus, he dropped the hammer:

> *"The ratings given by international credit agencies shouldn't be taken too seriously... [t]hey may have good insights on many projects and companies but it's hard for me to comment on their sovereign ratings"*

And so it continues.

The Central Banks of the world are roped together by their holdings of US dollars and there is very little they can now do about it. Each of them is hostage to the grip on legitimacy of the next.

Ben Bernanke's Flying Circus talk ad nauseum about their 'Strong Dollar' policy while the dollar about which they speak looks as healthy as Monty Python's famous Norwegian Blue. Meanwhile, the largest holders of Federal Reserve Notes around the world pay lip service in an attempt to keep the dollar strong enough for long enough so that they can slowly diversify their holdings into alternative investments such as... oh, I don't know.....gold, maybe? Silver? Oil?

In a stupefying act of attempted misdirection late this week, another member of the Flying Circus (namely President Barack Obama) directed his ire against everybody's favourite whipping boys, 'evil speculators' who would exploit the American people by creating higher gas prices:

> *"The truth is, there's no silver bullet that can bring down gas prices right away... [t]he Attorney General's putting together a team whose job it will be to root out any cases of fraud or manipulation in the oil markets that might affect gas prices - and that includes the role of traders and speculators. We are going to make sure that no one is taking advantage of the American people for their own short-term gain."*

Previously, this strategy has worked - uniting the people against a common enemy at whose feet the blame for the ills facing them could be laid. If the culprits could have the word 'evil' placed before them then so much the better.

But a funny thing seems to be happening.

The reaction to Obama's political grandstanding seems to hint that perhaps, the age of 'jawboning' is finally coming to an end.

> *President Obama is at it again. Soaring gasoline prices are hitting Americans where it hurts, and threatening to undermine our fragile recovery. With oil hitting $111 today, and gasoline topping $4 a gallon in many markets, economists are beginning to ratchet down their GDP forecasts, boding ill for continued job growth. Meanwhile, and not coincidentally, the nation is souring on our elected officials, and on the president, whose approval ratings are sinking like a failed soufflé. A staggering 70% of the nation thinks we're headed in the wrong direction. What's Obama's solution? Find someone to blame. (Fox News - OK... that was an easy one)*

How about the Washington Post?

> *Nothing brings out the shamelessness of Washington politicians like rising gas prices, and President Obama is the latest case. His Justice Department on Thursday announced a task force to investigate oil industry prices and practices for fraud. But if there is fraud here, it is that, in an attempt to appear to be doing something about inflating gas prices, the president and Republicans in Congress continue to fuel the myth that the federal government might, with an investigation here or plans to drill there, affect the short-term world-market price of a commodity America doesn't and never will control.*

Or Heritage.org?

> *Maybe President Obama should start investigating John F. Kennedy's shooting in his spare time, because he's not going to find a satisfying conspiracy in gas prices.*
>
> *Better yet, he could pick up an economics textbook and turn to the chapter on Supply and Demand.*

All it takes is a cursory glance at a chart of oil since QE2 was announced to uncover the 'evil speculators' causing the high prices (Oil is the yellow line, the dollar, white, and we'll throw in gold again for good measure):

SOURCE: BLOOMBERG/TTMYGH

The dollar's accelerating decline is proving troublesome to the US administration, but only due to the fact that people seem to finally be concerned about it. Previously, the 'Strong Dollar Policy' jawboning was enough to ensure that those accumulating dollars turned a blind eye to the fact that the purchasing power of the world's reserve currency was steadily being eroded through inflation. Suddenly, however, the game appears to have changed and that could be extremely problematic now that the Fed have backed themselves into the corner of a lifetime.

The next couple of months could prove pivotal when we come to write the history of the US Dollar.

Today we spend some time with Jim Grant, who tells us why QE3 is coming, ready or not, John Mauldin, who explains the dubious 'miracle' of compound inflation, Bruce Zimmerman of UTIMCo, who lays out the logic behind 'that' purchase and, our old friend Glenn Beck (and today's trip down the Beck rabbit hole is one you really DON'T want to miss).

We discover Deutsche Bank's $4 billion Vegas bet, hear how Greece is taking aim at the evil speculators at Citi, find out that suggestions China's nuclear power program will shut down any time soon are somewhat misguided and the good folks at Blackrock issue an official denial that Tyler & the gang at Zerohedge have been waiting for.

The bearded ringmaster of the Flying Circus finds his life getting tougher as the US is sent to the debt doghouse, Matt Taibbi is back and has a novel fund-raising idea, the US crosses an alarming threshold last bridged in 1930, the German press warns the US not to play with their credibility and we see how - finally - the world is getting bitten by the gold bug.

Charts of commodity prices, the US Dollar (what else?), taxes and the Philly Fed as well as an interview with one of the stars of Inside Job complete the line-up so all that remains is for me to leave you in the comedic presence of Messrs. Zhou and Geithner.

Until next time.

Zhou: *Look, I took the liberty of examining that ~~parrot~~ dollar when I got it home, and I discovered the only reason that it had been ~~sitting on its perch~~ worth more than zero in the first place was that it had been NAILED there.*

(pause)

Geithner: *Well, o'course it was nailed there! If I hadn't nailed that ~~bird~~ dollar down, it would have nuzzled up to those ~~bars~~ other currencies, bent 'em apart ~~with its beak~~, and VOOM!*

Zhou: *"VOOM"?!? Mate, this ~~bird~~ dollar wouldn't "voom" if you put four ~~million~~ trillion volts through it! It's bleedin' demised!*

Geithner: *No no! It's ~~pining~~ strong!*

Zhou: *It's not ~~pinin'~~ strong! It's passed on! This ~~parrot~~ dollar is no more! It has ceased to be! It's expired and gone to meet its maker! It's a stiff! Bereft of life, it rests in peace! If you hadn't nailed it to the perch it'd be pushing up the daisies! Its metabolic processes are now 'istory! It's off the twig! It's kicked the bucket, it's shuffled off its mortal coil, run down the curtain and joined the bleedin' choir invisible!!*

THIS IS AN EX-~~PARROT~~ RESERVE CURRENCY!!

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24 April 2011

The names of the biggest players in gambling — Wynn, Caesars, MGM — dominate the neon-drenched skyline of the Las Vegas Strip.

But the owner of the most expensive casino ever built in this hedonistic city, Deutsche Bank, is not announcing its arrival in lights.

Even before that casino, the Cosmopolitan of Las Vegas, opened in December, the German financial company was planning its exit strategy from a $4 billion investment that could take years, if not decades, to recoup.

"There has to be pressure on Frankfurt to do something," said Bill Lerner, an analyst with the research firm the Union Gaming Group. "They are a bank, and I don't think they have any interest in running a casino."

Deutsche Bank spared no expense on the Cosmopolitan, whose casino floor is dominated by a three-story glass chandelier that encompasses a cocktail bar. Guests rave about the oversize luxury hotel rooms with wrap-around terraces, which are often sold out. And management has lured popular restaurateurs and retailers.

...While big banks bristle at comparisons to casinos, big banks — by choice and by circumstance — have become a force in Las Vegas and other gambling hot spots

The Cosmopolitan is missing just one major component: a deep base of gamblers. It is betting on a relatively young demographic, a challenging crowd that usually prefers partying. On a recent Saturday night, the casino was almost empty as visitors flocked up one flight to the Marquee nightclub, where one inebriated partygoer threw up in line.

The investment is also putting Deutsche Bank at odds with its own clients. In 2009, it hired the general manager at Caesars Palace to run the Cosmopolitan — a move that upset the parent company, Caesars Entertainment, a crucial customer of the bank, according to people with knowledge of the situation who were not authorized to speak publicly.

While big banks bristle at comparisons to casinos, big banks — by choice and by circumstance — have become a force in Las Vegas and other gambling hot spots. Goldman Sachs acquired the Stratosphere in 2008 for roughly $1 billion. The bond powerhouse Cantor Fitzgerald runs the sports books at the Tropicana and other locales. Until recently, Credit Suisse owned a stake in the Hard Rock Hotel and Casino.

But few companies have as much riding on the industry as Deutsche Bank.

The bank reluctantly inherited the Cosmopolitan in 2008, just as the local and national economy began to crumble. After running into cash-flow problems, Bruce Eichner, then the owner of the casino and a developer mainly known for high-end residential properties in New York and South Beach, defaulted on his $768 million construction loan from Deutsche Bank. The lender foreclosed on Mr. Eichner and took control of the property, one of the first signs that the city was headed for hard times.

DEALBOOK / **LINK**

Greece has launched an investigation into widespread market speculation that the country could seek a debt restructuring over the coming holiday weekend.

Government and court officials in Athens said on Thursday that the prosecutor had launched an investigation prompted by an email sent by a employee of Citigroup, the US bank.

The Citi email, which has been seen by the Financial Times and carries a timestamp of 13.42 on

Wednesday, read: "Over the last 20min, there seems to be some increased noise over [Greek] debt restructuring as early as this Easter weekend. Spreads are moving wider now with 2-year spread +100 from +35 mid-day, while [Greek] banks are at -4%, i6% vs +2% in the morning.

"The last few days the talks over [Greek] restructuring/rescheduling have intensified, despite the on-going denials by [Greek] and foreign officials.

...The Greek economy is seen shrinking 3.0 per cent this year after a 4.5 per cent decline in 2010

"If a credit event takes place it is crucial to see what the terms would be as a haircut would have a much different outcome vs an extension of maturities."

Citigroup said on Thursday: "We are co-operating with the authorities and do not consider there to have been any wrongdoing by Citi or its employees."

The finance ministry on Wednesday asked the Athens prosecutor's office to launch a probe into the rumours, which have helped push Greek bond yields and the spreads of credit default swaps on Greek debt to record levels.

Greek banks have come under pressure because of their exposure to local government bonds and rising non-performing loans on the back of a deep recession, now entering its third year. The Greek economy is seen shrinking 3.0 per cent this year after a 4.5 per cent decline in 2010.

Analysts pointed out that in addition to potential reputational damage, large international banks risked being shut out of Greece's ambitious privatisation and public property development programme, which has been put at €50bn in the next few years.

★ ★ ★ *FT* / **LINK**

Forget Congress. It's the Fed that has the real headache now America's in the debt doghouse.

Post photos, organise parties, keep up with friends. Facebook has multiple uses for its 600m members.

This week it found a novel one: a refuge for a US president trying to escape Washington. President Barack Obama turned up at Facebook's headquarters in Palo Alto, California, on Wednesday to talk about something that has so far not troubled the world's biggest social networking site. It is, however, a growing headache for the world's biggest economy.

On Monday, the US experienced the economic equivalent of being told to join Alcoholics Anonymous. The ratings agency Standard & Poor's informed Washington that it must get its fiscal house in order within two years or lose its status as a top borrower. It was a public consigning to a debt doghouse that countries, including Britain, Greece and Portugal, were all sent to over the last couple of years and are all now trying to escape. Little wonder that Obama felt like some sunshine in California - a state that knows plenty about debt too.

The White House was told of S&P's move a week ago, but Obama's brief tour to sell his deficit-cutting plan was already in the works. And a reasonable question for anyone who turns up is why a company - S&P - that was so roundly criticised for its role in the financial crisis, is required to ring the alarm about a potentially bigger one.

It was not a question troubling too many in Congress who have spent this year bitterly fighting over how to deal with the deficit. The warning also got a warm reception from US government bond investors, who by the time market closed on Monday, were actually prepared to pay more for Treasury bonds than they had before the weekend. "It was a cattle prod to Washington," said Bill O'Donnell, who analyses the Treasury market for a living at Royal Bank of Scotland.

If the inhabitants of Congress were the intended target, it's another resident of Washington who will have felt the cattle prod just as forcefully. And we may soon get a chance to see the bruising. There was always going to be plenty to talk about at Federal Reserve chairman Ben Bernanke's first press conference next Wednesday. The second, $600bn (£362bn) round of quantitative easing (QE) is scheduled to end in June, and everyone one wants to know what comes next. But now Bernanke will face a flood of questions about the deficit, which in a uniquely large Gordian knot, is tied to what the exit strategy from QE will be.

UK DAILY TELEGRAPH / **LINK**

> *"Almost 30% of the respondents to a poll conducted by UBS a few weeks back said they anticipate a third round of so-called quantitative easing... We count ourselves among the expectant 30%. To its congressional directed dual mandate the Bernanke Fed has unilaterally added a third. It has undertaken to make the markets rise. The chairman himself has more than once taken credit for the post-2008 bull market (on one such occasion in January, he reminded the CNBC audience how far the Russell 2000 had come under Fed ministrations). Could he therefore stand idly by in the face of a new bear market. Byron Wien, vice chairman of Blackstone Advisory Services, went on record the other day predicting a summer swoon in stocks following the scheduled winding down of QE2 in June. Let us say that Wien is right, and that, furthermore, drooping stocks are accompanied by sagging house prices and a weakening labor market. Bernanke was hard put to explain why he chose to let Lehman go while acting to save Bear Stearns. He would be harder put to explain why he chose to implement QE1 and QE2 but, in another hour of need, refused to launch QE3...Sooner or later, gravity turns speculative markets into investment markets. When this transformation occurs, the Fed will confront the need to bail out the innocents it had previously bailed in. Hence, QE3."*

JIM GRANT (VIA ZEROHEDGE / **LINK**

A hilarious report has come out courtesy of the National Institute of Money in State Politics, showing that Iowa Attorney General Tom Miller – who is coordinating the investigation into the banks' improper mortgage dealings – increased his campaign contributions from the finance sector this year by a factor of 88! He has raised $261,445 from finance, insurance and real estate contributors since he announced that he was going to be coordinating the investigation into improper foreclosure practices. That is 88 times as much as they gave him not over last year, but over the previous decade.

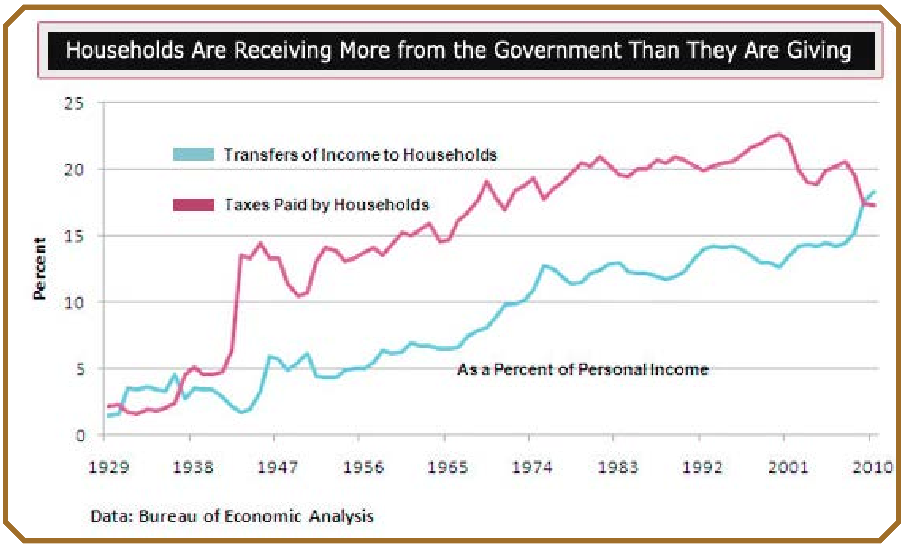
> ...If the banks had to pay what they actually owed ... they would probably all go out of business

This is about as perfect an example of how American politics works as you'll ever see. This foreclosure issue is a monstrous story that is somehow escaping national headlines; essentially, all of the largest banks in the country have been engaged in an ongoing fraud and tax evasion scheme that among other things has resulted in many hundreds of billions in investor losses, and hundreds of thousands of improper foreclosures. Last week, the 14 largest mortgage lenders a group that includes bailout all-stars like Citigroup, Bank of America and Wells Fargo, managed to negotiate a settlement with the federal government that will mandate some financial relief to homeowners who have been victims of improper foreclosure practices. It's unclear yet exactly what damages and fines will be involved in the federal settlement, or how many homeowners will be affected. But certainly there are some who believe the federal settlement was a political end-run around the states' efforts to extract their own deal from the banks.

Put it this way. If the banks had to pay what they actually owed – from the registration taxes/fees they avoided by using the electronic registry system MERS to the money taken from investors in toxic mortgage-backed securities to the fees and payments stolen from homeowners via predatory loan practices and illegal foreclosures – they would probably all go out of business. That's how much money is at stake here: the very future of financial giants like Bank of America and Citi and JP Morgan Chase is hanging to a very significant degree on the decisions of politicians like Miller.

Hence the sudden avalanche of money sent Miller's way. The numbers are laughable.

MATT TAIBBI / **LINK**



SOURCE: CASEY RESEARCH

As you can see, government transfers of funds to households exceeded taxes paid by households as a percentage of personal income. For the first time since 1936. And the gap is growing.

In raw numbers, in February of this year, households received \$2.3 trillion in income support from unemployment benefits, Social Security, disability insurance, Medicare, Medicaid, veterans' benefits, education assistance and other cash transfers of government funds to individuals.

The same month, households paid \$2.2 trillion in income, payroll, and other taxes. The difference was nearly \$100 billion, or around 1% of personal income.

If you want a rough guide as to where we stand in the playing out of this recession (assuming you don't concur with the government's declaration that it's over), this chart probably serves the purpose as well as anything. Note that the red line was below the blue one for 1931-36. If a similar period is in store this time around, then we're only about two-fifths of the way into a five-year downturn.

Consider also that, since 2007, household income tax payments have fallen by \$312 billion, while inflows of cash from the government have, over the same time period, accounted for 79% of household income growth. The latter number is improving, but in 2010 handouts still amounted to 28% of increased income.

In other words, the government is propping up consumers, to a very large extent.

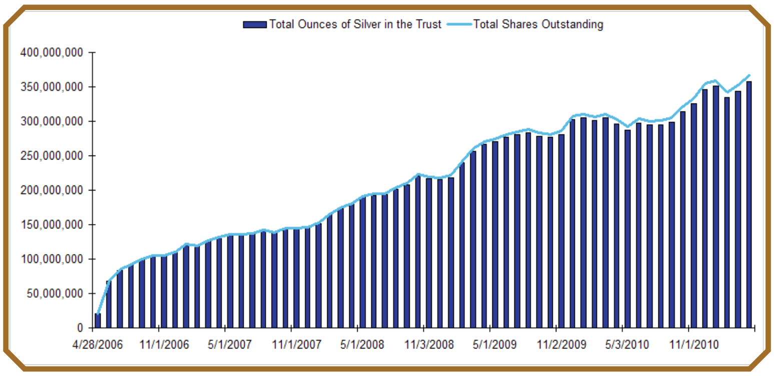
It's usually the other way around. By a rather wide margin. On average, through boom times and even moderate recessions, taxpayers part with about 8% more than they receive.

The disparity now is reflective of both the severity of our current economic woes and government's responses. People lost jobs and paid less in taxes, a result compounded by a new round of tax cuts. Concurrently, government met demands from programs that automatically kick in, like unemployment benefits, and added a host of additional ones to boot, like the Recovery Act.

While we certainly don't view any slackening in the flow of tax money to be a bad thing, the lack of any fiscal accountability on the part of government is. If it takes in less, it should spend less, just as citizens are forced to do. It hasn't, as we know all too well. But there's another aspect to this, too.

CASEY RESEARCH / **LINK**

At BlackRock, we take the responsibility of protecting shareholder interests very seriously and spend a lot of time constructing our iShares products to help ensure they meet investor expectations. In the case of SLV there are multiple safeguards in place. For one, it's structured as a grantor trust, which means the trust (on behalf of its shareholders) has the legal right of ownership to the silver it holds. JPMorgan Chase Bank, N.A., London branch, provides custodial services for storing the silver, but has no legal rights to SLV's silver holdings. Investors can see the serial numbers of all the silver bars in the trust here and can review an independent audit of the trust's silver here. (See chart showing total shares outstanding vs. total ounces of silver in the trust below).



CLICK TO ENLARGE **SOURCE: BLACKROCK**

Another concern revolves around ETF creation and redemption. I've gathered from many posts and comments that there is a misunderstanding about the role of Authorized Participants who facilitate trading in SLV through the creation of new shares when demand is high. Creating new shares does not expose existing SLV shareholders to some new mysterious risk. During the creation process, the AP exchanges physical silver for new shares, which are issued by Bank of New York Mellon (SLV's trustee) on behalf of BlackRock Asset Management International Inc. (the trust's sponsor). SLV's trustee and custodian ensure proper receipt of the silver before new SLV shares are released.

I recognize we live in a skeptical time, especially following the events of 2008, and it's smart to question whether your investments are doing what you think they should be doing. One of our key tenets here at iShares is transparency, which means we make every effort to educate potential investors on how each ETF works and what it holds. In the case of SLV, it's a very straightforward answer: silver.

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

Is the West going broke? It would seem to be a legitimate question in this era of sovereign debt panic. Not only is the euro zone struggling to prop up the European common currency with enormous bailout packages for its most indebted members, but concerns that Greece may ultimately go bust anyway have many afraid that the worst is yet to come.

> ...Is the West going broke? It would seem to be a legitimate question in this era of sovereign debt panic.

And then there is the United States. A report released by the International Monetary Fund last week suggests that US national debt could reach 100 percent of gross domestic product by 2015 -- and despite efforts to slim down the budget pushed through Congress by the administration of President Barack Obama last week, there is little indication that the upward trend will be reversed any time soon. This year's budget deficit will add a cool $1.5 trillion to the US debt load.

While few would argue that the 100 percent figure is anything more than symbolic, US national debt is indeed astronomical. Its debt-to-GDP ratio is, in fact, higher even than Ireland's and Portugal's, both of which have asked for immediate aid packages from the euro zone. And concerns about US debt are clearly growing. The decision on Monday by the ratings agency Standard & Poor's to revise its outlook on America's AAA debt rating from stable to negative merely highlighted those worries.

Obama on Tuesday addressed his country's debt woes in a speech at a Virginia community college and spoke of the need for an end to the Bush-era tax cuts for America's wealthiest -- cuts that Obama himself extended last December in a deal with the Republicans. He also spoke of reforms necessary to Medicare and the health care system and even hinted that defense budget cuts may be unavoidable.

"Finding savings in our domestic spending only gets you so far," he said. "We are also going to have to find savings in places like the defense budget."

Still, recent history has shown that, at least when it comes to winning back a rating of "stable," radical spending cuts are necessary. It was only two years ago that Great Britain lost its S&P stable rating -- prompting the newly elected government of Prime Minister David Cameron to launch an austerity package for the ages, one including deep public sector job cuts, higher taxes and a rise in the retirement age, among other measures. Last October, Great Britain regained its stable listing. The cost to the British economy and society, of course, has yet to be determined.

The US would likely have an even more difficult road to travel. Standard & Poor's thinks it is a road that Washington is uninterested in going down. "More than two years after the end of the 2008 financial crisis, the US has still not been able to agree on a strategy for reversing its worsening financial situation," wrote Standard & Poor's managing director David Beers in a contribution which appeared in the financial daily Handelsblatt on Wednesday. German commentators on Wednesday take a closer look at the Standard & Poor's decision.

The center-left daily Frankfurter Allgemeine Zeitung writes:

> *"The reason for the Standard & Poor's change to America's rating outlook is not new financial data. Rather it is the political danger that the Democrats and the Republicans will only agree on a debt-reduction strategy after the 2012 presidential elections."*

> *"The primary reason for America's political stalemate is Obama's refusal to see that, in an aging society, social spending cannot be as generous as it has been in the past. The great social reformer Obama is at least 20 years too late with his ideas. And given the irreconcilability of the two parties, it isn't possible that a plan to reduce national debt will take shape within the next two years. Obama only heated up the campaign atmosphere with his budget speech last week. Indeed, the top rating for US bonds is in danger."*

★ ★ ★ *DER SPIEGEL* / **LINK**

The US Mint, which is the world's largest silver and gold coin manufacturer, recently reported that it had sold 13 million ounces of silver coins and 370 thousand ounces of gold coins on a year-to-date basis. This means that the US Mint is now selling roughly equal amounts of silver and gold in dollars so far this year. Furthermore, bullion dealers like Sprott Money and GoldMoney have confirmed with us that they are now selling more silver than gold in dollar terms. For additional confirmation of this investment trend, just look at the flows for the two largest gold and silver ETFs. Investors have withdrawn approximately $3 billion from the GLD so far this year while the SLV has seen net inflows of $370 million over the same period. Dollar for dollar, investors are allocating as much if not more money to silver than to gold. And why shouldn't they? Silver is much more of a "precious" metal than the current ratio of 35-to-one would suggest.

> ...Dollar for dollar, investors are allocating as much if not more money to silver than to gold. And why shouldn't they? Silver is much more of a "precious" metal than the current ratio of 35-to-one would suggest.

To explain, we must first address mine supply. In 2010, the world mined approximately 736 million ounces of silver and 85 million ounces of gold. The world also produced an additional 215 million ounces of silver and 53 million ounces of gold from recycled scrap. Adding both together brings us 951 million ounces of silver and 139 million ounces of gold supply, for a ratio of seven ounces of silver to one ounce of gold.

Interestingly, this ratio is very similar to the ratio of available in-situ silver and gold reserves. The U.S. Geological Survey estimates that there are current in-situ reserves of approximately 16.4 billion ounces of silver versus 1.6 billion ounces for gold, or about a 10-to-one ratio.

The case for silver is even more compelling when one considers the ramifications of its dual role as both an investment and industrial metal. Last year, non-investment demand for silver (which includes industrial, photographic, and silverware demand) totaled approximately 610 million ounces. This represents approximately 64% of primary supply, leaving approximately 341 million ounces to satisfy investment demand. On the gold side, industrial usage totaled 13 million ounces, or about 10% of primary supply, leaving approximately 125 million ounces left over for investment demand. So, after netting out the industrial usage the primary supply left over for investment demand is about 2.7 times that for gold.

However, if we convert those ounces to dollars at current prices, we're left with $15 billion worth of silver available for investment versus $186 billion worth of gold, or a one-to-13 ratio of silver to gold! This means that in terms of primary supply, silver only has 8% of the capacity for investment that gold does despite having equal if not more dollars flowing into it.

ERIC SPROTT & ANDREW MORRIS / **LINK**

New nuclear power projects may be approved, following suspension of the procedure on March 16 by the State Council after the Japanese tsunami, when the nuclear safety plan is issued, probably in August, a senior nuclear expert said.

"Operating plants and plants under construction will soon be inspected and reviewed by a group of experts," Lin Chengge, a senior expert at the State Nuclear Power Technology Corp Ltd (SNPTC) and former deputy director of the National Nuclear Safety Administration (NNSA), told China Daily.

The review group completed an inspection of the Daya Bay nuclear power plant in Guangdong province, last week.

"Results of the inspection will be provided to the government so it can decide if safety improvements are needed," Lin said.

> ...Even though the speed and scale of China's nuclear development will be adjusted, subject to inspection results, dramatic changes are unlikely after the Japan accident

The move came after the government said on March 16 that it would suspend approval for new nuclear projects, following Japan's nuclear crisis, until a safety plan is issued.

The NNSA also ordered existing facilities to launch safety checks following the Japan crisis.

"I think China will use the most advanced third-generation technology in all future nuclear plants," Lin said.

Four reactors under construction will use the third-generation AP 1000 model designed by US company Westinghouse Electric and introduced by the SNPTC in 2006.

"One of the units will have 70 percent of its components made in China," Lin said.

"Only the most advanced technology can restore people's confidence in nuclear safety."

However, other experts are divided on the technology to be adopted by China's future nuclear plants.

"The second-generation nuclear technology that China has been using has no safety problems," said Pan Ziqiang, director of the Science and Technology Commission at the China National Nuclear Corp (CNNC), the largest nuclear plant operator in China, which uses second-generation technology.

CNNC is building two of the four reactors that will use third-generation technology.

"Though third-generation technology is better, there is a process that takes some time from starting operations to perfecting the technology," he added.

Even though the speed and scale of China's nuclear development will be adjusted, subject to inspection results, dramatic changes are unlikely after the Japan accident, Lin said.

China could add 12 gigawatts (gW) of nuclear capacity annually in the near term and is expected to boast 70 to 80 gW by 2020, Zhou Dadi, director of China's Energy Research Institute, said on April 15.

The country had a total of 10.82 gW of nuclear capacity at the end of last year, the China Electricity Council said.

China's revised nuclear capacity was expected to reach 86 gW before Japan's nuclear crisis.

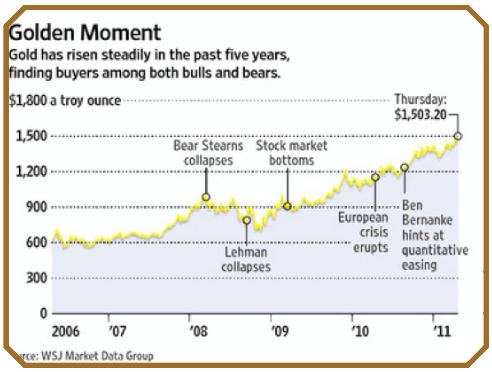
The country's resolution to develop nuclear power is unlikely to be shaken by the situation in Japan.

★ ★ ★ *CHINA DAILY* / **LINK**

Gold continued its upward march in a time of global financial tumult, closing above $1,500 an ounce Thursday for the first time as investors seek safe haven in the metal.

In a remarkable performance for any sort of asset, gold has notched a record high every day this week—on days when investors were alternately gloomy and optimistic. On Monday, as stocks swooned after Standard & Poor's warned about the credit rating of the U.S., gold reached a new high. It kept rising on Tuesday and again on Wednesday, as stocks soared on impressive corporate earnings.

On Thursday, gold rose $4.90 an ounce to $1,503.20, another nominal record high and its first settlement above $1,500. Gold is up for five straight weeks, and has gained 5.8% so far this year. Gold will not trade in the U.S. on Good Friday.



CLICK TO ENLARGE SOURCE: WSJ

The reason for gold's ability to do well in any market lies in its recent role as a haven from concerns about the dollar, inflation and shocks in Europe, the Middle East and Japan.

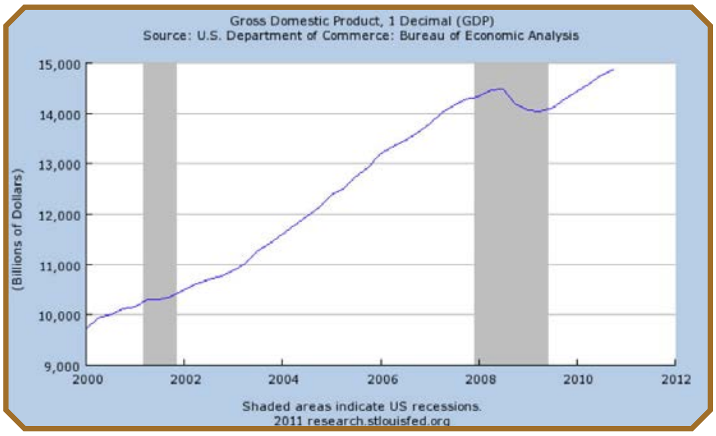
"Gold has more than one hat right now," said Adam Klopfenstein, senior market strategist at Lind-Waldock, a division of MF Global. "What people are seeing around the globe is that there's really nowhere to hide right now. When one camp cools down on buying gold, you are seeing another camp come in."

Gold's rise is a broader reflection of a lack of confidence in governments' abilities to sort out fiscal problems.

Investors are concerned not only about the value of the U.S. dollar, a worry accentuated by S&P's decision to downgrade the U.S. debt outlook. They also are concerned about the outlook for the euro, as the sovereign debt crisis in Europe worsens, and the yen, which faces hurdles as the Japanese economy recovers from its recent earthquake and tsunami.

★ ★ ★ *WSJ* / **LINK**

First, let's look at nominal GDP over the last 11 years, from the beginning of 2000. The data only goes through the third quarter of last year, so sometime this year it is quite likely that GDP will top $15 trillion.

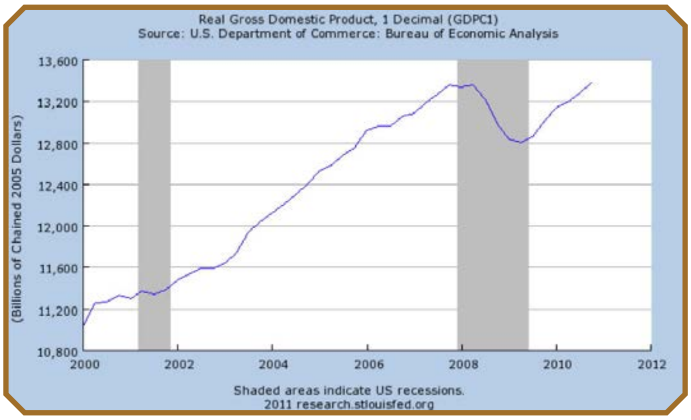


SOURCE: JOHN MAULDIN/ST LOUIS FED

So, the economy has grown by roughly 50%, right? Give or take, that's close to 4% growth (back of the napkin calculation). And in dollar terms that is correct. But what if we took out all the growth that was due to inflation? The economy would only have grown to $12.5 trillion. And in fact, "real" or inflation-adjusted GDP growth was just 1.9% on an annualized basis for the last decade, the lowest growth rate since the '30s. What cost on average $1,000 in 2000 is now $1,250.

Now, to see this in an interesting graph, the Fed has real GDP based on 2005 dollars. You can see that we are about back to where we were in 2008, prior to the crisis, and growing well below trend. But if we adjust for inflation, growth has not been close to what it was in nominal terms.

Now let's run through a few "what-if" scenarios. What if the next 11 years look more or less like the last, with 4% nominal GDP growth? That would mean that in 2022 nominal GDP would be 50% larger than now, right at $22.5 trillion. But that is with only 2% inflation.



SOURCE: JOHN MAULDIN/ST LOUIS FED

What if inflation were 4%, with the same growth? Then nominal GDP would be $30 trillion! What a roaring economy, except that gas would $8 a gallon (assuming current levels of supply and demand). In essence, you would need $2 to buy what $1 buys today. Don't even ask about health-care costs. If your pay/income did not double, you would be in much worse shape in terms of lifestyle. That is the insidious nature of inflation.

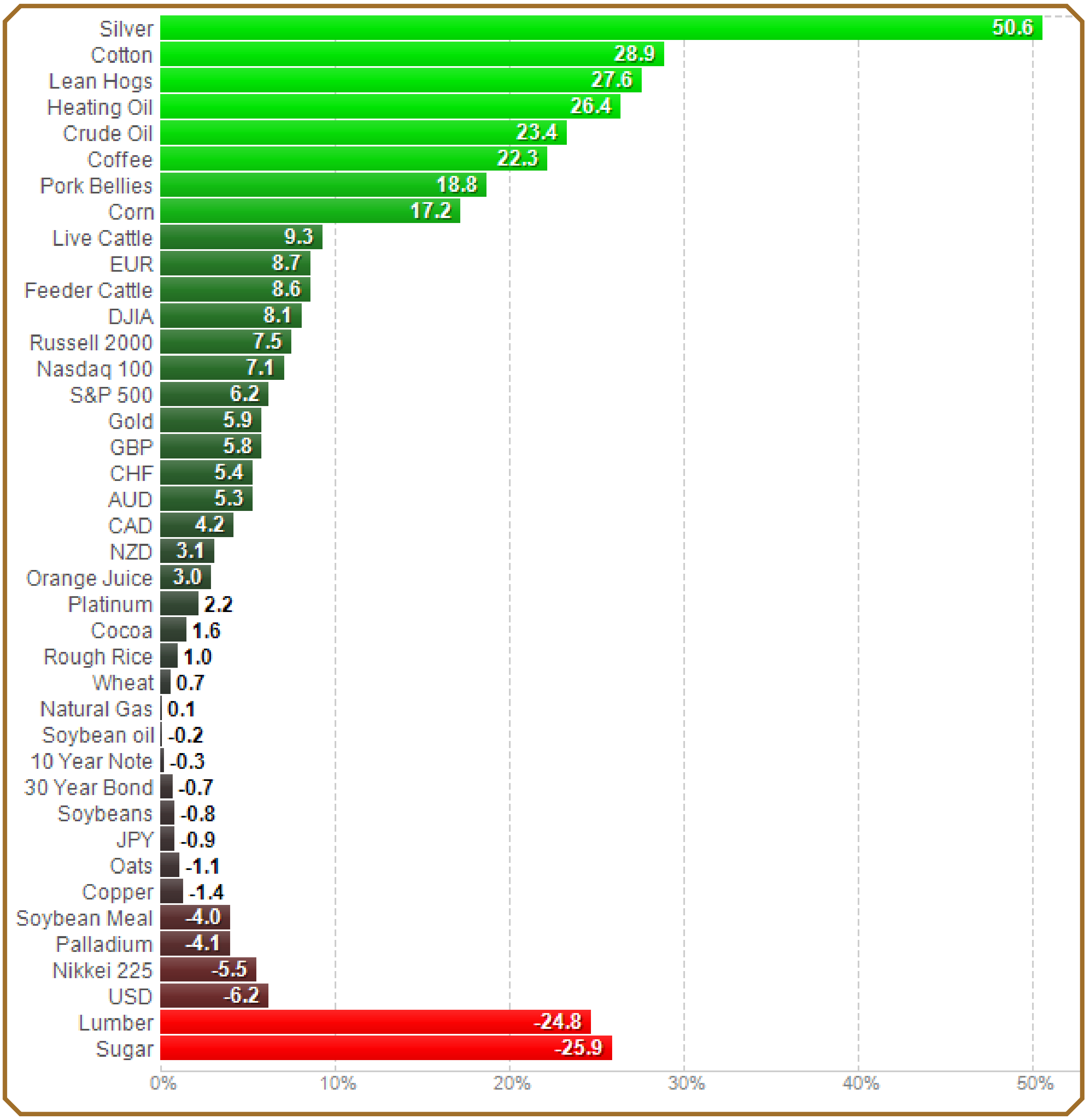
But let's think about that from a federal budget perspective. Let's assume we get 20% of GDP in federal tax revenues, which is roughly a little higher than the historical average. That means total tax revenues would be in the range of $6 trillion. With 2% inflation, revenues would be just $4.5 trillion. If the federal government froze its spending at current levels for 12 years (no inflation adjustment), we would be running large surpluses under either scenario.

Higher inflation means US debt is easier to pay back, as nominal GDP is what we pay taxes on, not inflation-adjusted. Inflation is a tried and true method of dealing with too much debt. Inflation is also just another word for default, but it sounds so much better to the ear.

★ ★ ★ *JOHN MAULDIN* / **LINK**

Year-to-date relative performance.

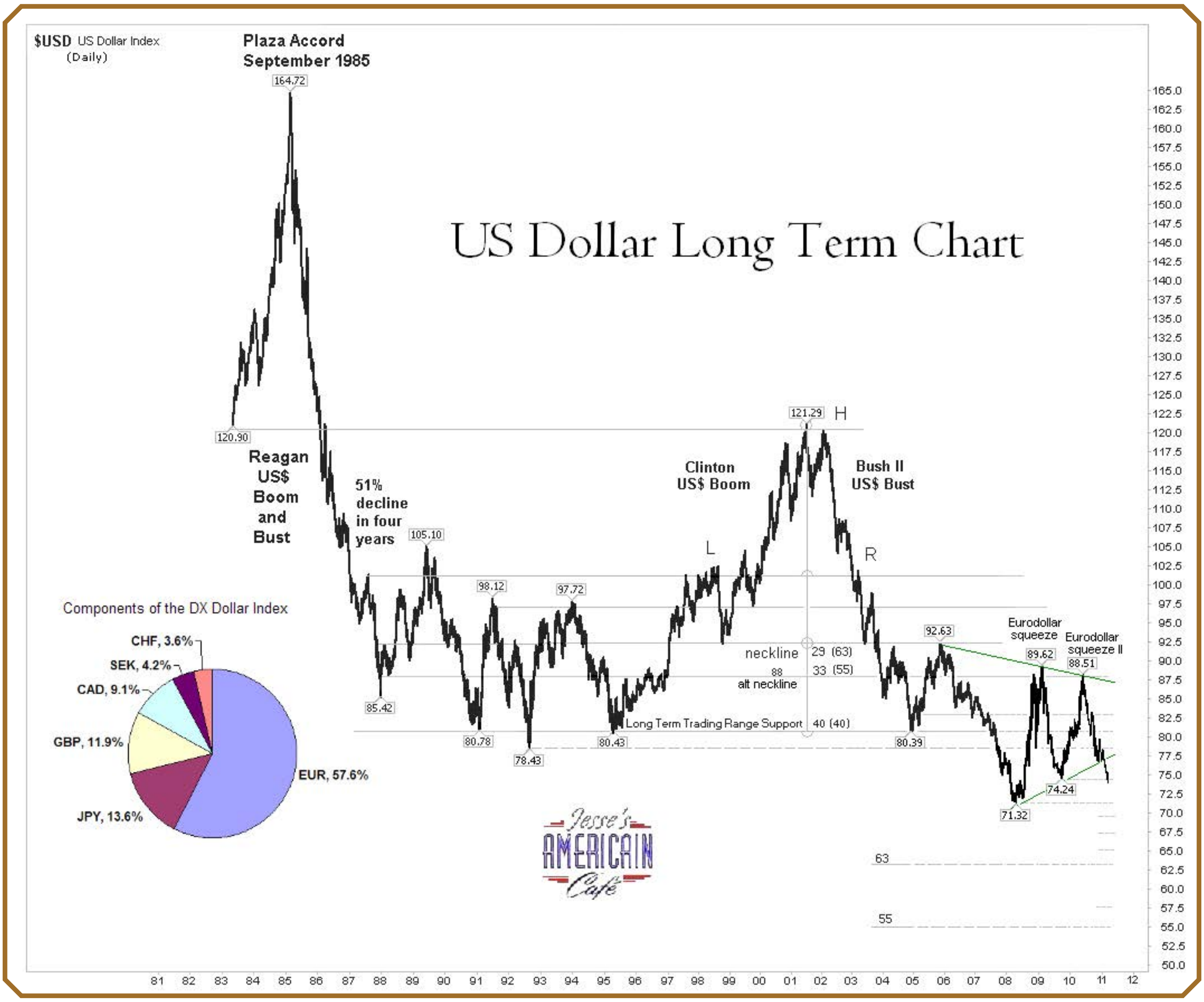
Any questions?



SOURCE: FINVIZ

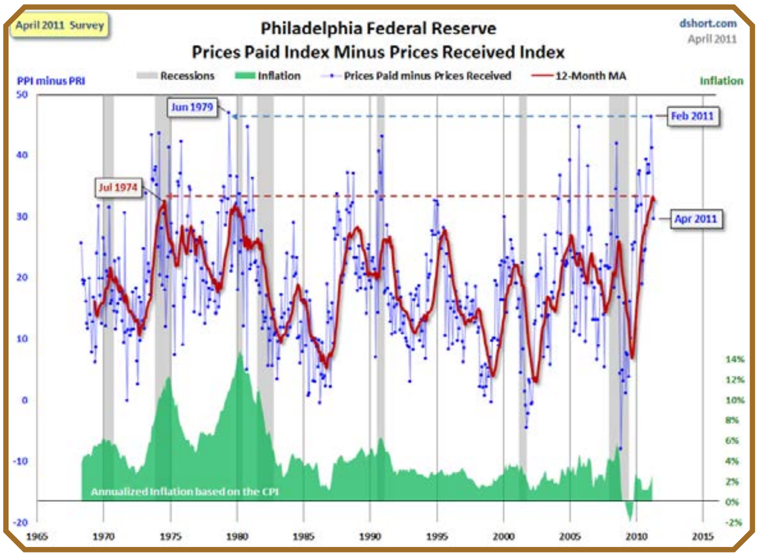
US Dollar long-term performance

Err.... any questions?



CLICK TO ENLARGE

SOURCE: JESSES CAFE AMERICAIN



The Philly Fed

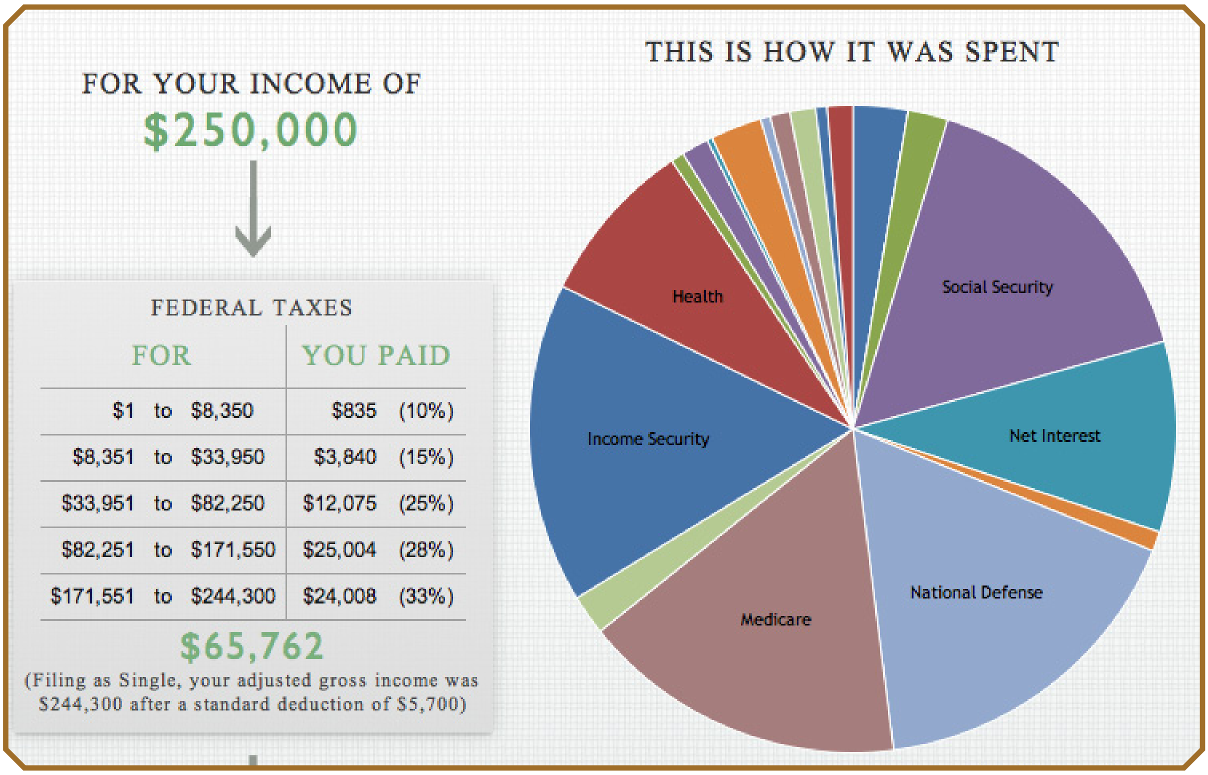
Prices Paid Minus Prices Received Index is an extremely volatile series, which I've illustrated by using dots for the monthly data points. To highlight the underlying pattern, I've included a 12-month moving average (MA). The date callouts show that the comparable levels in the past were associated with inflationary peaks. The April ratio is down from last month but remains high: at the 85th percentile of the 516 monthly data points in this series. The 12-month MA has declined 2% from the all-time high set last month.

DOUG SHORT **/ LINK**

Want to see

where your tax dollars go (in the US at least)? This great interactive website will show you.

The same site here in Singapore would be a far, far simpler proposition.....



FEDERAL TAXES

FOR			YOU PAID	
$1	to	$8,350	$835	(10%)
$8,351	to	$33,950	$3,840	(15%)
$33,951	to	$82,250	$12,075	(25%)
$82,251	to	$171,550	$25,004	(28%)
$171,551	to	$244,300	$24,008	(33%)

$65,762

(Filing as Single, your adjusted gross income was $244,300 after a standard deduction of $5,700)

CLICK TO VIEW

SOURCE: WHEREDIDMYTAXDOLLARSGO

CLICK TO WATCH

UTIMCo CIO, Bruce Zimmerman talks to CNBC about their large gold position and how they see it as more of a hedge than a capital-producing investment.

For those of you looking for clues, I'm afraid Bruce says he doesn't know what the future holds. Sorry.

One of the stars of the Oscar-winning documentary, Inside Job, former FOMC member Frederic Mishkin, appeared on CNBC's Squawk Box this week to talk about Ben Bernanke's upcoming press conference. This spirited discussion with Steve Liesman is a clash of true economic heavyweights...

CLICK TO WATCH

Watch This

CLICK TO WATCH

OK.... so it's a holiday weekend and the last thing you probably want to do is spend 30 minutes of it with Glenn Back, BUT, in his latest rant there are some remarkably lucid points that show that perhaps, just perhaps, there may be something of an awakening going on.

I urge you to take the time to watch this video. I have the distinct feeling that it will turn out to be very important.

Beneath the rhetoric, beneath the hyperbole and beneath the grandstanding you might just find something interesting going on...

Hmmm…

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