THINGS THAT MAKE YOU GO Hmmm...

A walk around the fringes of finance

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"...it reflects a peculiarly American trend of burying-in-the-sand Ostrich Think, so prevalent among mainstream publications: An unwillingness - bordering on inability - to look at financial news in a cold light, and see what it actually means, rather than what we hope and pray it might be."

– GONZALO LIRA

"..Do not dwell in the past, do not dream of the future, concentrate the mind on the present moment"

– BUDDHA

"The future is purchased by the present"

– Samuel Johnson

"When did the future switch from being a promise to a threat?"

– Chuck Pahalniuk

"Study the past, if you would divine the future"

– Confucius

"The future ain't what it used to be"

– Yogi Berra

December 20, 2012

Well what a year that was.

It's hard to believe that, after a tumultuous year like 2011, the stakes could have been raised yet further in 2012, but raised they were.

So many momentous moves took place in the past twelve months it was hard to keep pace with everything. Fortunately, way back in December 2011, I didn't put together my own list of 'Black Swan Possibilities For 2012' that so many people choose to publish at the end of a year, so history will be unable to judge the success or failure of my own thoughts which I diligently kept to myself – after all, who in their right mind would want to listen to a list of potentially unexpected events that I predicted could possibly happen in 2012?

Predicting is, to use the vernacular, a mug's game and, if you ever find yourself being foolish enough to share your thoughts about what MAY happen with others, then take the advice of Marc Faber:

> *"...when you make a prediction, never make a prediction about timing"*

Unfortunately for them, the Mayans were unaware of the thoughts of Dr. Faber - a situation that is probably even more unfortunate for Dr. Doom himself, as he would doubtless have been revered amongst a group of people not only fixated by the end of the world, but willing to put an actual date against it. For those of you concerned about it, that date is tomorrow, December 21st, 2012, hence my desire to write my review of the past year BEFORE the world ends. In case you're interested in reading it, I'd suggest you get a move on – just on the off-chance.....

We begin the review of 2012 with arguably the biggest story (though in this particular year, that is a tougher call than one would normally imagine) and that was the final implosion of Europe after decades of political process and, latterly, hundreds of billions of Euros thrown into a bottomless pit in an ill-fated attempt to placate Germany.

Ultimately, with the Germans having to finally capitulate and allow the ECB to backstop European sovereign debt in March after a series of disastrous bond auctions, it was clear that the position of Greece was one that couldn't continue the way it had.

Faced with yet more enforced austerity and a population on the verge of Civil War, Greece finally had no choice but to leave the Euro (shown happily to the door by her Northern neighbours), return to the Drachma and devalue its currency dramatically in order to address the crippling deficits it had accumulated in the futile attempt to be accepted into a 'club' it had no more than a geographical right to be part of from the beginning.

SOURCE: REUTERS

The subsequent rioting in Portugal, when a referendum on membership of the Eurozone was denied, and the consequential emergence from the shadows of the Socialist Party, whose cries of "quebrar as correntes" (break the chains) became a rallying cry that swept them into power and Portugal out of Europe, threw the continent into a tailspin and now looks like causing Spain to become the third country to walk away from a Unified Europe in protest at the draconian concessions being demanded by Germany in order that the Spanish government's debt receive the same backstop granted the more austere governments in Dublin and Rome.

The announcement by the Prime Minister that, like Greece before it, Spain's budget deficit was actually of a far greater magnitude than had been previously admitted was the final nail in Spain's coffin

Much of the strife in 2012 was centred around The Middle East as the trouble in Iraq that began last year immediately after the withdrawal of US troops continued to escalate into a full-scale civil war and the simultaneous eruption of violence in Syria allied with the attempts by Iran, Turkey and Saudi Arabia to influence the outcome of the sectarian violence that ravaged Iraq combined to send the oil price spiking to $150 as attacks on pipelines in the south (widely assumed to be backed by the government in Tehran) became commonplace, disrupting supply and sending gas prices soaring across the globe. The unrest culminated in the ill-fated US attack on Iran's Bushehr reactor which caused another spike in oil prices to the previously-inconceivable level of $188. The resultant surge above $5.00 for gas prices in the US proved a step too far for the creaking US economy.

President-elect Hillary Clinton's narrow win over Michael Bloomberg in last month's US election put the seal on an extraordinary year in American politics after Barack Obama's shock decision in June not to seek re-election. Bloomberg's late emergence put paid to the hopes of Ron Paul, whose remarkable showing in the early Primaries and caucuses had made the chances of him finally moving into the White House (and bringing some much-needed fiscal sanity with him) look anything but remote.

Paul's surge in the opinion polls was as much a tribute to the sheer consistency of his message over several Presidential campaigns as it was to the vagaries of the other candidates in the race for the Republican nomination. Herman Cain, Newt Gingrich, Rick Perry and even Michele Bachmann came and went, but ultimately, it looked like Paul and Mitt Romney would be left battling it out for the GOP nomination - until Bloomberg finally threw his hat into the ring.

Obama's withdrawal from the race had echoes of Lyndon B. Johnson's famous speech in 1968 during which he had cited the division in the American House:

"There is division in the American house now. There is divisiveness among us all tonight. And holding the trust that is mine, as President of all the people, I cannot disregard the peril to the progress of the American people... Believing this as I do, I have concluded that I should not permit the Presidency to become involved in the partisan divisions that are developing in this political year... Accordingly, I shall not seek, and I will not accept, the nomination of my party for another term as your President."

In an eerily similar scene, Obama's withdrawal address to a nation that had grown tired of the petty politicking by Speaker John Boehner's Republicans and Harry Reid's Democrats was as dramatic as it was unexpected - although the low-visibility of Secretary of State Hillary Clinton in the months leading up to the announcement that the former golden child of American politics was withdrawing had many on the Hill speculating aloud about what was perhaps going on behind the scenes.

Obama's star, so long in the ascendancy, had burned out amidst a drastically worsening employment landscape and the false dawn of a string of better-than-expected economic figures around the end of 2011. The unprecedented collapse in retail spending early in 2012, public weariness with the bending of statistical inputs to produce the desired results, the Congressional insider-trading scandal that just wouldn't die and the disastrous attack on Bushehr all combined to make Obama's position untenable in the end.

His standing down "for the good of the Democratic Party, so we can unite and finish the journey to a better America", whilst a shock, was enough to catapult Hillary (and, importantly, her husband Bill) Clinton to a nail-biting victory that ultimately snatched the White House from Bloomberg's seemingly unshakable grasp.

Meredith Whitney's late-2010 prediction about a Municipal bond meltdown in 2011 turned out to be a year too early, unfortunately for her, but it came true in spades in 2012 as, with the partial disintegration of the Eurozone, the realisation dawned on the world that the likes of California, Illinois and New Jersey were no better off than Greece, Portugal and Spain.

Whitney's original report "The Tragedy Of The Commons" attracted thousands of words of commentary when it was issued way back in 2010:

> *(Fortune): Whitney claims that the study is the most comprehensive, in-depth analysis of the states' murky patterns of spending, revenues and benefits programs ever assembled by the government, foundations, or another research firm.*
>
> *What Whitney found reminds her of the poor disclosure and arcane accounting rules that hid the fragile condition of the banks and monoline insurers that she unmasked. "The states represent the new systemic risk to financial markets," says Whitney. "I see a lack of transparency and an abundance of complacency on the part of investors and politicians, just as we saw before the banks imploded."... "It's not that my clients requested it," says Whitney. "I was just so shocked by what I was seeing that I couldn't stop. Any long-term strategic plan needs to take account of the dangerous, mostly overlooked problems in the state finances."*
>
> *In the report, Whitney rates the fifteen states on four criteria, their economy, fiscal health, housing, and taxes. For each category, she assigns a rating of one, two or three for best, neutral or negative. Only two states get positive overall ratings: Texas and Virginia. Eight are either negative, or rated neutral, with a negative bias. The rub is that those are typically the states with the biggest economies: California, Ohio, New Jersey, Michigan, and Illinois (all negative) and Florida, Georgia, and New York (neutral, negative bias).*

But for every word of commentary on Whitney's prediction, there were a dozen (written with barely-disguised glee) devoted to pointing out just how wrong she had been (with Bloomberg conspicuously leading from the front):

> **Meredith Whitney Loses Credibility as Muni Defaults Fall 60% - Bloomberg*

**Meredith Whitney Doubles Down AND Cops Out On Her Muni Doom Prediction - Business Insider*

**Whitney's Armageddon Belied by '11 Returns - Bloomberg*

**Muni Bonds: A Disaster That Wasn't - WSJ*

**The Worst Prediction of 2011 - Wall Street Daily*

As all eyes moved from the crumbling Eurozone to the US, the Municipal Bond meltdown that Whitney foresaw in late 2010 became the next big thing.

The debt of California and Illinois in particular attracted the ire of investors as Illinois' terrible fundamentals were laid bare by, of all people, Former State Senator and Republican Cook County Board President candidate Roger Keats and his wife Tina late in 2011 as they left Illinois for the wide open spaces of Texas.

In a letter published in the Wilmette Beacon, they pulled no punches:

(Godfather Politics): As we leave Illinois for good, I wanted to say goodbye to my friends and wish all of you well. I am a lifelong son of the heartland and proud of it. After 60 years, I leave Illinois with a heavy heart. BUT enough is enough! The leaders of Illinois refuse to see we can't continue going in the direction we are and expect people who have options to stay here. I remember when Illinois had 25 congressmen. In 2012 we will have 18. Compared to the rest of the country we have lost 1/4th of our population. Don't blame the weather, because I love 4 seasons.

Illinois just sold still more bonds and our credit rating is so bad we pay higher interest rates than junk bonds! Junk Bonds!

Illinois is ranked

- *50th for fiscal policy*
- *47th in job creation*
- *1st in unfunded pension liabilities*
- *2nd largest budget deficit*
- *1st in failing schools.*
- *1st in bonded indebtedness*
- *Highest sales tax in the nation*
- *Most judges indicted (Operations Greylord and Gambat)*
- *5 of our last 9 elected governors have been indicted. That is more than the other 49 states added together!*

Then add 32 Chicago Aldermen and (according to the Chicago Tribune) over 1000 state and municipal employees indicted. The corruption tax is a real cost of doing business. We are the butt of jokes for stand up comics.

We live in the most corrupt big city, in the most corrupt big county in the most corrupt state in America. I am sick and tired of subsidizing crooks. A day rarely passes without an article about the corruption and incompetence. Chicago even got caught rigging the tests to hire police and fire!

Our Crook County CORPORATE property tax system is intentionally corrupt. The Democrat State Chairman who is also the Speaker of the Illinois House (Spkr. Mike Madigan) and the most senior alderman in Chicago each make well over a million dollars a year putting the fix in for their clients' tax assessments...

The letter continued, but the point was made.

California was little better

(Sacramento Bee): California became the first state in the nation to completely eliminate transportation funding for public schools. Gov. Jerry Brown cut $248 million in state funding that helps put school buses on the road and reduced student attendance funding by $79.6 million. Those cuts take effect the second half of the academic year.

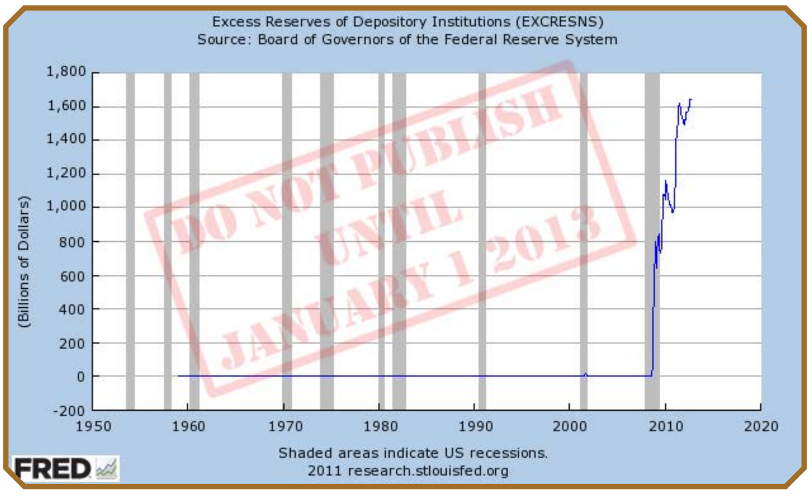
(Huffington Post): a myriad of California state employees are taking home big salaries. The five highest paid government employees all work in the prison system, according to LA Weekly, including the head parole psychiatrist for the Department of Corrections and Rehabilitation who made $838,706 -- the most of any public employee in the state.

The crown of highest paid public employee in California may be up for debate. A prison surgeon was actually the highest paid public employee, netting $777,423 in 2010 while not working because he was taking home two years of back pay while appealing a termination, according to the Los Angeles Times.

But prison employees aren't the only California state employees making the big bucks. Most of the full-time lifeguards in Newport Beach, California get more than $100,000 in pay, benefits and overtime.

Of course, as the US economy began to sink, the Fed - unlike the ECB - proved once again that it had no hang-ups about turning on the printing presses and so it was that we not only saw QE3 this year as the Fed announced their intention to buy an additional $800 billion of MBS in February after the strengthening dollar - floating proudly atop a sea of global monetization by the BoE, the SNB and (at that stage covertly) the ECB - threatened to put paid to the US' export-led recovery, but QE4 too as the Fed finally slashed the rates it paid on the $1.7 trillion in excess deposits held at the Federal reserve by banks in an attempt to finally get that capital deployed where it was needed most.

Unfortunately, the fears of a great many Fed-watchers were realised when the effects of QE3 and the sudden surge of money out of the Federal Reserve's digital vault and into the wild after QE4 (euphemistically called 'Reserve Realignment' by an increasingly-ridiculous Board of Governors) caused the kind of inflation spike that had been strangely absent since the Fed's balance sheet went into overdrive in 2008.



SOURCE: ST LOUIS FED

U.S. CPI hit 5.3% in October and, with regular gas settling comfortably above $5 as premium gas soared above $7 in the wake of the conflict across the Middle East, the inflation genie was finally - and conclusively - out of the bottle and the deflationists (who had looked like winning the day) were left licking their wounds.

Naturally, this showed up in the prices of the precious metals as gold made a mockery of its late-2011 swoon to charge through $2,400 as, not only the renewed moneyprinting by Central Banks the world over, but the Middle East conflict and, perhaps most importantly, the emergence of the MF Global 'whistleblower' who, amongst other things, had testified to the CME behind closed doors that there was a dramatic shortage of physical gold backing the paper claims being traded on the COMEX - confirming what many had been speculating about for years - and explained to bemused regulators that the collapse in gold prices from $1,900 to $1,600 had been pure manipulation designed to shake loose physical gold and move it into the hands of large investment banks whose short positions had begun to get out of hand as their regular suppliers - the world's central banks - had turned aggressive buyers in 2011.

Silver followed gold higher with the price reclaiming the $50 level and holding it despite the continued failure of the CFTC to publish the findings of their now three-year investigation into manipulation of the silver market which led to the sudden resignation of Bart Chilton in protest at what he claimed were 'unacceptable delays in the face of overwhelming evidence of consistent and coordinated manipulation'.

The death of Kim Jong-il in December of 2011 had led to fears of increased tensions on the Korean peninsula but instead, what the world (and South Korea) found themselves dealing with was unexpected engagement of an altogether friendlier nature as Kim's successor, his third son, Kim Jong-un, used the 100th anniversary in April of the birth of North Korea's Kim Il-sung to attempt to build bridges by moving towards reunification with the South. The potential cost of any reunification between South Korea's 48 million citizens and their 24 million 'cousins' across the demilitarized zone will dwarf that borne by West Germany back in 1989 when they tore down the Berlin Wall.

Goldman Sachs estimated in 2000 that it would cost W1.7 trillion (US$1=W1,188) to raise North Korea's labor productivity to 50 percent of the South's in 10 years after reunification, and W3.55 trillion to increase it to South Korea's level. It was based on an assumption that Korea would be reunified in 2005.

The North's per capita income of $1,000 is a world away from the $20,000 enjoyed in the South and bridging that gap will no doubt cost far in excess of the estimated €2 trillion cost of reuniting Germany between 1990 and 2009.

Whatever happens, Germany's economic conditions at the time of their reunification were far better than those 'enjoyed' in Korea. The East German population was far smaller in comparison to the differential between North and South Korea and the difference between the health of the two economies - while large - was nowhere near the gulf between the two Koreas. The process of reunification will take years - maybe decades - and along the way, the political implications of a unified Korea, under the influence of the West, right on China's borders is guaranteed to be a bumpy road indeed.

Lastly, but by no means least, the astonishing collapse of China's housing market after the cracks that began to show in 2011 was both swift and brutal in 2012.

The first signs of any real weakness came in November of 2011 as official data showed a modest 0.15% month-on-month decline in the 70 cities monitored by the National Statistics Bureau, but beneath the friendly figure, lay a more worrying truth:

> *(FT): ...the trend was clear with housing prices falling in 34 of the cities in October, twice as many as in September.*
>
> *China has used a battery of policies to cool its real estate market, trying to rein in the runaway prices that had become a risk to the economy and a bitter frustration for ordinary citizens unable to afford property... On the surface, the official data suggest that China's property market is holding up reasonably well. In Shanghai, prices for new homes dipped 0.3 per cent from a month earlier. In Beijing, they were down just 0.1 per cent.*
>
> *But the numbers published by the statistics bureau are notorious for understating the true volatility in the market. When prices were soaring in late 2009, the official data showed annual gains of 10 per cent when private companies estimated that prices in top-tier cities had doubled.*
>
> *One key concern now for both policymakers and investors is whether the official data will fail to capture the full extent of the stress in the housing market as prices fall.*
>
> *A series of reports in official media have said that many smaller real estate developers are on the brink of collapse, blocked from bank financing and unable to generate cash flow as transactions plummet. In Wenzhou, the weakest housing market in the country, one developer offered free BMWs in the hopes of enticing buyers.*
>
> *To support the economy even as it heaps the pressure on real estate developers, the government has launched a programme to build 36m affordable homes over five years. But in a rare setback for such a high-profile policy target, the housing ministry has admitted that progress has been slow, raising doubts about whether the public investment in property construction can adequately compensate for the decline in private investment.*

Shanghai's housing market had already fallen some 40% from its 2009 peak by the end of 2011 and this retrenchment continued into 2012 despite China's best efforts to loosen the grip of their earlier efforts to cool the raging property market

In any other year, the long-anticipated bursting of the Australian housing bubble which finally happened following an epic decline in consumer spending in the first half of 2012 and the triumph of David Cameron's Conservative Party in a snap election called when the coalition with the Liberal Democrats broke apart in the wake of Cameron's decision to abandon Europe would have been major stories.

Cameron's landslide victory proved that the British had little desire to be part of the European experiment any longer and justified the decision he made in December of 2011 to follow a different path and, in its own way, set the stage for the continent-wide calls for referendums that threatened to engulf the whole of Europe in civil strife.

In Australia, the collapse of housing prices in Sydney and Melbourne - long-predicted by many - was swift and deep and, despite Glenn Stevens' rapid response through a series of rate cuts, the pain reverberated through an already creaking retail sector as overindebted households cut back their discretionary spending in historic fashion. The mining sector, for so long the backbone of Australia's prosperity, struggled to take up the slack in the second half of the year as China's problems intensified.

Lastly, the gradual creep higher in US interest rates after QE3 and QE4 resulted in several near-failed auctions looks as though it could signal the beginning of a fundamental shift that may potentially, in 2013, bring about the final unraveling of the global government bond ponzi scheme.

We shall see.

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So..... in this, the last Things That Make You Go Hmmm..... of 2011, we take a look at gold's recent sell-off through the eyes of Casey Research's Jeff Clark who asks whether we are tempted sellers or eager buyers. No need to ask China that question as they actively encourage their citizens to accumulate the yellow metal and bemoan the availability of it in the marketplace and Turkey throw their hat into the ring with an announcement about their reserves (hint: they're not declining).

Retail comes under pressure, US politicians stop squabbling and pass the payroll tax extension, the keepers of Japan's purse-strings are getting desperate and we see how commodity markets have contracted dramatically in the wake of the MF Global collapse.

Both the ECB and the Fed pour cash into the system - inviting similar risks, Jefferson County sets a dangerous precedent, HM Treasury begins to plan for a breakup of the Eurozone and, in China, Michael Pettis sees a lot of sound and fury while we look at a few 'bad news bears' that could spoil the Year of the Dragon.

A double-bill of the great Jim Puplava and a chat with Satyajit Das grace our interviews page while charts of US unemployment, Middle East conflict and the anatomy of a collapse round things out.

There's just time for a spectacular own goal before we bid a (not-so-) fond farewell to 2011 and welcome in 2012.

Before I leave you, I need to make quite clear that I do not possess a time-machine. Honestly.

Oh to live in a world where I DIDN'T have to make that quite clear.....

Happy New Year everybody - let's hope it is.

As a result of my role at Vulpes Investment Management, it falls upon me to disclose that, from time-to-time, the views I express and/or the commentary I write in the pages of *Things That Make You Go Hmmm.....* may reflect the positioning of one or all of the Vulpes funds - though I will not be making any specific recommendations in this publication. All the views expressed in this publication are wholly my own and in no way represent a consolidated Vulpes viewpoint.

Grant

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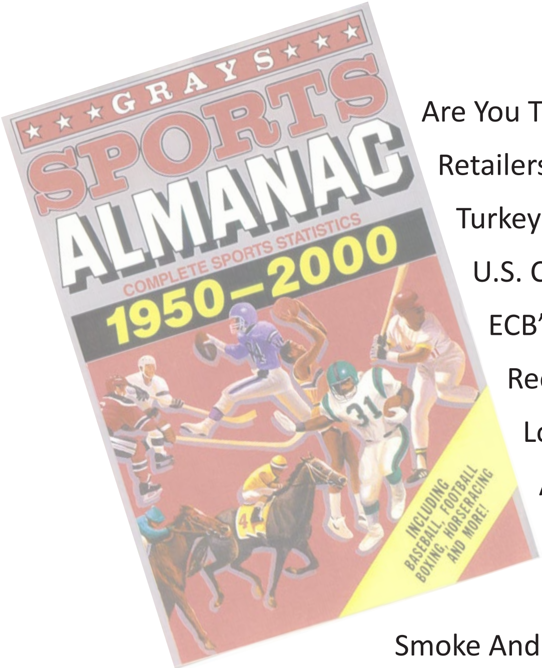
28 December 2011



It wasn't a fun week for gold. By the close on Friday, the metal was down 6.7% (based on London PM fix prices), the biggest weekly decline since September. It got downright irritating when the mainstream media seemingly rejoiced at gold's decline. Economist Nouriel Roubini poked fun at gold bugs in a Tweet. Über investor Dennis Gartman said he sold his holdings. CNBC ran an article proclaiming gold was no longer a safe-haven asset (talk about an overreaction).

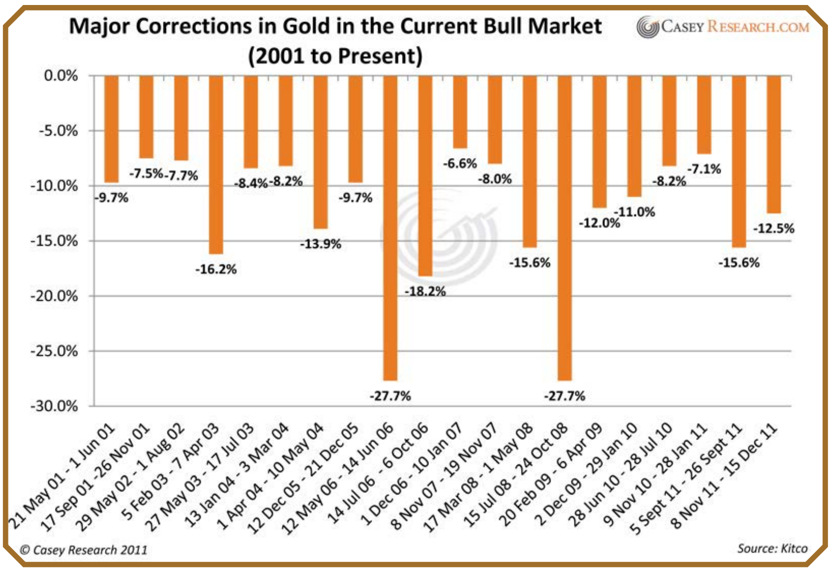
While the worry may have been real, let's focus on facts. Have the reasons for gold's bull market changed in any material way such that we should consider exiting? Instead of me providing an answer, ask yourself some basic questions: Is the current support for the US dollar an honest indication of its health? Are the sovereign debt problems in Europe solved? How will the US repay its $15 trillion debt load without some level of currency dilution? Is there likely to be more money printing in the future, or less? Are real interest rates positive yet? Has gold really lost its safe haven status as a result of one bad week?

And one more: What is the mainstream media's record on forecasting precious metals prices?

Our take won't surprise you: not one fact relating to the trend for gold changed last week. We remain strongly bullish.

So why did gold, silver, and related stocks fall so hard?

The reasons outlined in this month's BIG GOLD are still in play (the MF Global fallout, a rising dollar, year-end tax-loss selling, and the need for cash and liquidity to meet margin calls or redemption requests). Last Wednesday's 3.5% fall took on a life of its own, selling begetting selling, fear adding to fear (especially the case with gold stocks). None of these reasons, however, have anything to do with the fundamental factors that ultimately drive this market. Once those issues shift, then we'll talk about exiting.



SOURCE: CASEY RESEARCH/KITCO

So, should we buy now? Is the bottom in?

Let's take a fresh look at gold's corrections and compare them to the recent one. I've updated the following chart to include the recent selloff.

[How do I calculate the data? I look for the periods in every annual gold chart that represent a distinct fall greater than 5%, then measure the highs and lows.]

JEFF CLARK / **LINK**

Half off at the entire store at Ann Taylor. Sixty percent at Gap. Forty percent off almost everything at Abercrombie & Fitch.

Aggressive last-minute deals in the days before Christmas are good for procrastinators, but they could be an alarm bell for the retail industry.

While scattered markdowns are standard every year, discounts across entire stores — which analysts say are more widespread than last year — suggest merchants are stuck with too much merchandise.

"It's really a game of chicken," said David Bassuk, managing director and head of the retail practice at the consultant firm AlixPartners.

Many retailers entered the season "with pretty optimistic plans" that shoppers would rush into stores and pay full price, Mr. Bassuk said. But that did not pan out, and the final days before Christmas have retailers being "much more aggressive in terms of promotions being offered," he said.

Shoppers are filling their holiday lists against the backdrop of an uncertain year, with stubbornly high unemployment, increased food prices, volatile gas prices and unpredictability for stocks and Europe's debt crisis. The government on Thursday said that third-quarter economic growth had not been as brisk as it previously estimated, because of a drop in consumer spending on services like health care.

> "... discounts across entire stores - which analysts say are more widespread than last year - suggest merchants are stuck with too much merchandise"

Toys "R" Us announced on Thursday new deals on dozens of items for Friday and Saturday, including 'buy one, get one half off" on popular toys like Legos. A sampling of other promotions: Up to 70 percent off toys at Amazon; up to 50 percent off gifts at Restoration Hardware; 40 percent off almost everything at American Eagle Outfitters, Talbots, Limited and Wet Seal; and 30 percent off everything at J. Crew.

"There's been kind of a waiting game with retailers," Gerald L. Storch, the chief executive of Toys "R" Us, told CNBC last week. "And it looks like the consumer wins."

Paul Lejuez, an analyst at Nomura Equity Research, surveyed mall deals over the weekend and said he was concerned. "It looks like 40 percent is the new level you have to be at, 40 percent off, to drive traffic. Those that weren't at that level weren't getting their fair share," he said.

Going into the holiday season, inventories had grown more than three times as fast as sales at several retailers, including American Eagle Outfitters, Aéropostale, Gap Inc., Urban Outfitters, Chico's and Talbots. "If inventory is growing ahead of sales growth, there is a need to be more promotional to move the goods," Mr. Lejuez said.

★ ★ ★ *NY TIMES* / **LINK**

Turkey lifted its gold reserves by a hefty 1.328 million troy ounces, or 30 percent, last month as central banks around the world maintained their positions as net buyers of the precious metal.

According to data from the International Monetary Fund, the Turkish central bank increased its gold reserves to 5.758 million ounces in November, from 4.429 million ounces the month prior. This followed a rise of 697,000 ounces in October, the latest IMF figures show.

While the Turkish central bank wasn't available for immediate comment Friday regarding its recent reserve increases, it announced in November that it had begun to accept gold in its reserve requirements from commercial banks. Under the policy change, banks are allowed to hold a maximum 10 percent of their Turkish lira reserve requirements in gold, which it said would free up around 5.5 billion lira ($2.91 billion) in liquidity to the market.

Prior to the purchases, Turkey had the 30th-largest official holding of gold in the world, at around 7 percent of its foreign reserves, according to the World Gold Council, an industry body. It is now likely to have the 22nd-largest official holdings following the additions Meanwhile, Russia also continued its program of gold accumulation in November, lifting its holdings a further 81,000 ounces to 28.086 million ounces. Russia's reserves, having been added to every month so far in 2011, are now up 11 percent on the start of the year.

In January the Central Bank of Russia's press service said the bank planned to buy 100 metric tons, or around 3.2 million ounces, of gold per year from domestic banks in order to bolster reserves. Russia is the world's eighth-largest official holder of the precious metal, which accounts for around 9 percent of its foreign reserves.

"... Total central bank gold purchases in the third quarter were more than double the level in the second quarter and almost seven times higher than the same period of last year"

Emerging market central banks have been buying gold in reaction to the sovereign-debt crises affecting the U.S. dollar and the euro, analysts say. Demand has also risen strongly in recent quarters as some seek to diversify foreign-exchange reserves that have grown along with emerging market export industries.

Tajikistan last month added 10,000 ounces of gold to its reserves, counterbalancing a reduction of 12,000 ounces reported the prior month. Its reserves now stand at 150,000 ounces, according to IMF data.

Macedonia, Belarus, Mauritius, and Greece also reported small additions to their reserves for November, while Mexico and Slovenia recorded minor reductions.

Metals consultancy GFMS recently forecast that central banks could buy nearly 500 metric tons, or around 16 million ounces, of gold this year.

Total central bank gold purchases in the third quarter were more than double the level in the second quarter and almost seven times higher than the same period of last year, at 148.4 metric tons, or 4.8 million ounces, according to a report last month from the WGC. The body said it expects central banks to continue to be net buyers of gold in the fourth quarter, as well as next year.

Purchases by the official sector have helped to drive the price of gold higher this year, not only by absorbing supply but through the positive boost they have given to market sentiment.

WSJ (VIA GATA) / **LINK**

U.S. commodity markets have shrunk almost 9 percent since MF Global's collapse as farmers, investors and traders close out positions, according to a Reuters analysis of data that suggests there may be lasting effects from the industry's most disruptive broker failure.

While several different factors likely figured into the decline - including the seasonal year-end closure of trading books - the study provides the first evidence to show that smaller-scale traders who were MF Global's core customers may have been effectively frozen out of the markets.

It does not yet answer the bigger question: how many of these traders will return to the markets? Their capital may eventually be fully restored in the bankruptcy process as lawyers and regulators search for up to $1.2 billion (765.5 million pounds) in missing customer cash; their faith in the system may be harder to mend.

You figure that the company at MF's height was one of the largest non-bank clearing firms in the world and they had a large chunk of the business," said Richard Ilczyszyn, a former MF Global analyst who is

CLICK TO ENLARGE

SOURCE: CFTC/REUTERS

now chief market strategist and founder of iitrader.com LLC, a futures commodities broker in Chicago.

"People got iced out of the market, it's paralyzing."

In the six weeks since the bankruptcy of the most active broker in U.S. commodity markets, traditional hedgers - including physical producers, consumers and traders - have closed out positions in corn, crude, gold and other markets, causing the number of open trades to shrink dramatically. By contrast, big hedge funds and speculators remain as deeply invested as before the collapse, albeit with positions that indicate they are much less bullish on prices.

In the week ended November 29, open interest - a measure of market size that represents the number of active futures and options contracts in circulation - fell below 10 million contracts for the first time since July 2009, according to Reuters calculations based on Commodity Futures Trading Commission futures and options data from 19 key markets.

A drop of 1.3 million contracts in the four weeks following MF Global's collapse was the sharpest such reduction in positions since November 2010, when prices slumped. Interest has marginally risen since the low last month, but is still about 1 million contracts, or 8.7 percent, under November 1 levels, and down 3 million contracts from a peak in February.

The collapse of MF Global, which had been the most active broker on New York's metals and energy exchanges and No. 2 in Chicago's agricultural markets, has knocked confidence in the commodity futures market, in particular in the biggest U.S. futures exchange operator CME Group.

Indications the broker dipped into customer funds for its own purposes - an unprecedented violation of a fundamental tenet of the markets - shocked and dismayed counterparties who regularly leave millions of dollars in broker accounts.

REUTERS / **LINK**

The European Central Bank has launched the biggest lending operation in its history, and banks pounced on the offer on Wednesday, borrowing almost a half-billion euros for three years at a low interest rate. Governments hope the banks will use the cash to buy sovereign bonds, but critics warn the ECB's strategy is risky and could stoke inflation.

Central bankers tend to be diplomatic and cautious in their public statements, so the dramatic wording the European Central Bank (ECB) used this week to warn about an escalation of the euro crisis was indeed striking.

Tensions in the financial markets had "intensified to take on systemic crisis proportions not witnessed since the collapse of Lehman Brothers three years ago," the ECB warned in its latest report issued on Monday.

ECB President Mario Draghi told a committee of the European Parliament that Europe's banks faced major dangers in the coming months. "The pressure that bond markets will be experiencing is really very, very significant if not unprecedented," Draghi said.

It will be a tough year for banks. In 2012 overall they will have to pay back €725 billion ($953 billion) in debt, of which €280 billion will fall due in the first quarter alone. They will have to borrow fresh money to service this debt, but it's almost impossible for them to raise that money in the private market. Most of them have large holdings of European government bonds on their balance sheets, so they don't have the mutual trust necessary to lend each other large sums of money.

"The interbank market is pretty shut," said Dieter Hein, a finance expert at Fairesearch, an independent research company for institutional investors, banks and brokers. "Virtually no one outside is lending any money to euro-zone banks any more."

"...The ECB is hurling gigantic amounts of liquidity into the market," he said. "It can't control that, it's playing with fire."

That's why the ECB has become the lendor of last resort for many banks. Ever since the start of the 2008 financial crisis it has kept on supplying the banking sector with fresh cash, for up to one year in some cases. On Wednesday, it launched the biggest lending operation in its history, and banks responded by borrowing €489 billion in the ECB's first ever offering of three-year funding -- at an interest rate of just one percent initially.

This carte blanche for the financial sector has whetted the appetite of Europe's policymakers. French President Nicolas Sarkozy said weeks ago that cash-strapped countries could start turning to their banks for credit again if they had sufficient liquidity.

At first sight everyone gains. The banks could lend their cheaply obtained borrowed cash to governments at higher interest rates, and governments would at last be able to find buyers for their bonds again. The ECB might even be able to abandon its own controversial purchases of government bonds.

But critics are sounding the alarm. They say that by bailing out the banks, the ECB is financing governments through the back door. Bill Gross, head of the world's biggest bond investor Pimco, said Europe was simply shifting funds from one hand to the other.

Hugo Beck, economics professor at Pforzheim University in Germany, said the flood of money would eventually stoke inflation. "The ECB is hurling gigantic amounts of liquidity into the market," he said. "It can't control that, it's playing with fire."

DER SPIEGEL / **LINK**

Since the end of June 2011, excess reserves held by commercial banks have declined by about $107 billion. (Remember in August 2008 when excess reserves in the banking system totaled only $2.0 billion...for the whole banking system!) For the two-week period ending November 30, 2011, excess reserves averaged almost $1.6 trillion.

Reserves balances held at Federal Reserve banks dropped by about $110 billion over the same period of time. On December 7, 2011, reserve balances were slightly under $1.6 trillion.

Excess reserves held by the banking system and reserve balances at the Federal Reserve tend to move in the same direction and in about the same magnitude. The reason for focusing on reserve balances held at Federal Reserve banks is that this number comes from the Fed's balance sheet and can be related the movements of line items that appear on the balance sheet.

This decline in reserve balances has not been overtly driven by Federal Reserve actions. In fact, three factors have dominated this decline, and each of the three is independent of what the Federal Reserve might be overtly doing.

The first two factors relate to components of the Federal Reserve's portfolio of securities. After the

Fed's holdings of U. S. Treasury securities, the largest part of the portfolio is made up of mortgage-backed securities. From the end of June through the current banking week, the amount of mortgage-backed securities on the Fed's balance sheet dropped by $82 billion and represented maturing securities.

The Fed's holdings of Federal Agency securities also feel by almost $11 billion during this same time period again from the run-off of maturing issues.

The third factor that helped to decrease reserve balances was a $31 billion increase in currency in circulation outside the banking system. That is, when currency is drawn out of the banks and moves into the hands of individuals, families, and businesses, bank reserves go down…unless these outflows are offset by other actions of the Federal Reserve.

"... This decline in reserve balances has not been overtly driven by Federal Reserve actions. In fact, three factors have dominated this decline, and each of the three is independent of what the Federal Reserve might be overtly doing"

Just these three factors alone resulted in a $124 billion reduction in bank reserves. Some open market operations as well as other operating factors offset this decline, but the net result, as mentioned above, was that overall excess reserves in the banking system decline by more about $110 billion over this time period.

While these excess reserves were declining, however, we observed during the same time period, a sizeable change in the speed at which the money stock was growing. For example, in June, the year-over-year rate of growth of the M1 measure of the money stock was about 6 percent. In July, the rate of growth increased to 16 percent, in August it was slightly more than 20 percent where it has stayed.

The M2 measure of the money stock did not show such dramatic increases, since the M1 measure is a subset of the larger total, but it, too, increased during this time period. In June, the year-over-year rate of growth of the M1 measure was about 6 percent. In July the growth rate of this measure rose to 8 percent and then jumped to 10 percent in August where it has remained.

In July and August, the banking system experienced huge gains in demand deposits while in June, July, and August savings deposits at depository institutions rose dramatically.

JOHN MASON / **LINK**

TWO weeks ago on Wednesday night, after the Chinese markets closed, the People's Bank of China announced that it had cut the minimum reserve requirement by 50 basis points to 21% for the large banks, and lower for the smaller banks. With the announcement coming just hours before announcements by the Fed, the ECB and the central banks of the UK, Switzerland, Japan and Canada, that they would jointly lower interest rates on dollar liquidity swaps to make it cheaper for banks around the world to trade in dollars, it seemed like world's major central banks were determined to stimulate global credit growth.

But the PBoC move is qualitatively different from that of the others. I think it is important to remember that changes in the minimum reserve requirements in China have more to do with managing the changes in underlying liquidity caused by net inflows and outflows to China than they have to do with changes in credit. At any rate here is the Xinhua article on the subject:

> *The People's Bank of China, the country's central bank, said on Wednesday that it will lower banks' reserve requirement ratio (RRR) by 50 basis points for the first time in three years in order to replenish liquidity in the country's banking system as inflation eases.*

> *The latest cut, effective on Dec. 5, drops the RRR to 21 percent for large commercial banks and 17.5 percent for mid- and small-sized banks. An estimated 396 billion yuan (62.38 billion U.S. dollars) in capital will be released into the market. The move signals that the government is set to stabilize economic growth after easing inflationary pressures, although it is not yet known if the change will bring about a full-on move toward a looser monetary policy, analysts said.*

I don't think anyone was especially surprised by the direction of this move, although the timing was more aggressive than most expected. It has been clear for a while now that China's economy was slowing and we were pretty much expecting that Beijing was going to take action to spur credit expansion – which is really the only tool Beijing has to manage growth.

But the change in the reserve requirement usually has very little to do with credit growth, except possibly as a way for Beijing to signal its intentions. For the past several years the main role of the reserve requirement hikes has been to soak up liquidity created by the monetization of the increases in the PBoC reserves (and, I suspect, to lower the funding cost for the PBoC, which would otherwise almost certainly run a negative carry). When Beijing wants to affect credit expansion it does so mainly by administratively tightening or relaxing constraints on credit growth.

MICHAEL PETTIS / **LINK**

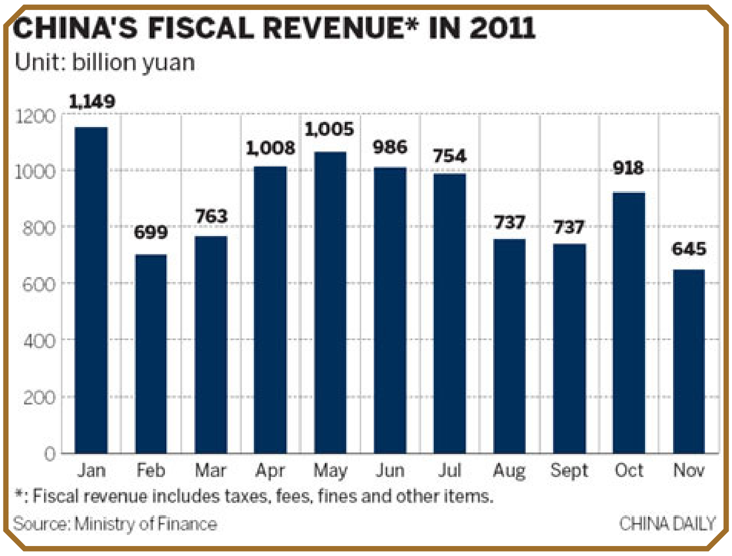
Goldman's Jim O'Neill noted in a recent interview that the world's future prosperity depends on China's growth. While we don't totally agree with that assessment as we see China as one of the many contributory factors towards world's future, there are some recent bad news bears coming out of China that could spell troubles for markets, at least in 2012.

> *Export Growth Could Drop to Zero in 2012*

The General Administration of Customs released November trade figures showing export growth continued to decelerate and was at their most sluggish in two years. At a news conference, China's Commerce Ministry spokesperson warned,

"The overall trade environment next year for China will be complicated, partly due to the economic uncertainties in the European countries, and I should say that the export situation in the first quarter of next year will be very severe."

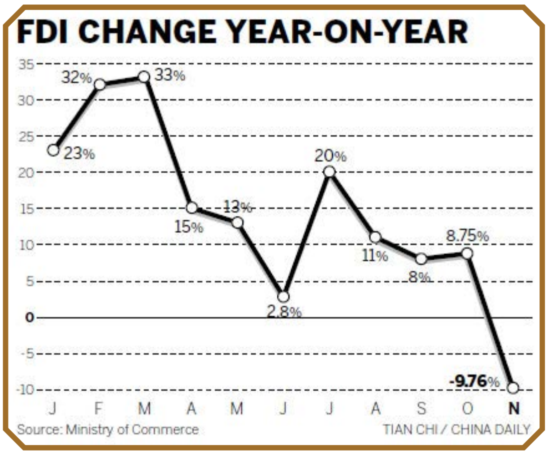
Wang Tao, an economist at UBS Securities noted China's export growth is expected to "drop to zero in 2012," which will have a "sizable negative impact on the economy," and that the export figures underline "shifts in the export structure - some traditional lower-end and labor-intensive sectors may be losing market share to cheaper producers." (See Chart [right])



CLICK TO ENLARGE **SOURCE:** **MINISTRY OF FINANCE**

> *FDI Sees Its First YoY Drop in 28 Months*

Part of China's recent explosive growth has to do with foreign in-



SOURCE: MINISTRY OF COMMERCE

vestments pouring into the country to capitalize on the expected burgeoning middle class income growth. But in November, China experienced its first year-on-year dip of 9.76% in Foreign Direct Investment (FDI) in 28 months primarily from a sharp drop in inflows from the United States, while investments from the European Union -- China's single largest trading partner -- were essentially flat. (See Chart [left]).

Moreover, this drop came on top of the first net capital outflow from China in four years in October, as investors fled emerging markets due to Europe's festering debt crisis.

ECONMATTERS / **LINK**

The U.S. Congress passed a two-month payroll tax-cut extension eight days before its scheduled expiration after House Republicans dropped their objections under growing political pressure.

"This is some good news, just in the nick of time for the holidays," said President Barack Obama, who signed the legislation. "When Congress returns I urge them to keep working without drama, without delay, to reach an agreement" on extending the tax cut for all of 2012, he said.

Similar to a plan passed by the Senate Dec. 17, the measure would extend a two-percentage-point payroll tax cut, continue expanded unemployment benefits and head off a reduction in Medicare payments to doctors through February. Lawmakers plan to negotiate on a longer-term extension in the new year.

Passage capped a year of partisan battles that brought the U.S. to the brink of four government shutdowns and a government default on obligations to bondholders. Today's approval of the tax measure in both chambers by unanimous consent came only after House Republicans surrendered to attacks from Obama, congressional Democrats and Senate Republicans angered by the House's push for a yearlong extension days before the holidays.

"I hope this Congress has had a very good learning experience, especially those who are newer to this body," Senate Majority Leader Harry Reid, a Nevada Democrat, told reporters after his chamber's action today. "It seems that everything we've done this past year has been a knock-down, drag-out fight. There is no reason to do that."

The agreement kicks the dispute over extending the tax cut for 160 million U.S. workers into early next year without resolving deep divides over how to cover the cost through 2012.

Democrats are seeking to raise taxes for high-income Americans, and Reid said "nothing is off the table" as he named his negotiators for a longer-term deal. Republicans want to cut the federal workforce and freeze pay for government employees, among other spending-cut options.

Republicans also want to attach to a payroll tax-cut extension policies such as a rewrite of the unemployment system or weaker rules for industrial emissions -- both opposed by Democrats.

The deal that House Speaker John Boehner, an Ohio Republican, and Reid, a Nevada Democrat, agreed to yesterday calls on Obama to accelerate approval of the Keystone XL oil pipeline from Canada.

Boehner might be in a weaker position in 2012 after presiding over the tumult of recent days, in which

Senate Republicans opposed his stance and some House Republicans had begun to defect as well. The talks next year will unfold in the months ahead of a presidential election, making Boehner's task more difficult.

"I don't think it's a time for celebration," he told reporters yesterday. "Our economy is struggling. We've got a lot of work ahead of us in the coming year."

Some Republicans were pleased to see that Boehner cut his losses.

BLOOMBERG / **LINK**

China should further diversify its foreign-exchange portfolio and make more gold purchases when the metal's price dips but is still at a relatively high level, a senior central bank official said on Monday.

"The Chinese government should not only be cautious of the imported risk caused by rising global inflation, but also further optimize its foreign-exchange portfolio and purchase gold assets when the gold price shows a favorable fluctuation," said Zhang Jianhua, director of the research bureau affiliated with the People's Bank of China (PBOC).

"... Li added that there was no easy way for China to get as much gold as it wished because major economies such as the US hold the majority of gold and market supplies are very limited"

He made the remarks in an article in the Beijing-based Financial News, a newspaper run by the PBOC.

The spot gold price declined 16 percent over the past three months to less than $1,600 an ounce last week. It touched a record of more than $1,900 in early September.

Zhang said bleak economic conditions, increasing international liquidity as countries turned to monetary easing and the resulting high inflation had dampened investors' confidence. He said that gold had become the only "safe haven" for risk-averse investors. "No asset is safe now. The only choice to hedge risks is to hold hard currency - gold."

Zhang didn't specify what proportion of China's $3.2 trillion foreign reserves should be held in gold.

China is the largest foreign holder of US Treasury securities, having invested about one-third of its foreign reserves in those bonds. About 20 percent has been invested in euro-denominated assets.

As of this month, China ranked sixth worldwide in gold holdings, with about 1,054 tons. The value accounted for about 1.8 percent of the country's total foreign reserves, according to a report released by the World Gold Council (WGC).

The US topped the list by holding more than 8,133 tons of the metal, 76.6 percent of its foreign reserves by value, while Germany ranked second by holding 3,396 tons, 73.7 percent of its reserves.

In 2011, countries including Russia, Thailand, South Korea, Bolivia, Colombia, Kazakhstan and Venezuela purchased the metal to increase gold holdings of their central banks' reserves.

China didn't sell or buy gold from 2010 to 2011, according to WGC statistics.

"The PBOC may have realized that its euro-denominated assets are in greater danger than it expected and started to eye gold," said Li Jie, director of the foreign-reserves research center at the Central University of Finance and Economics.

"But it's impractical for China to put its foreign reserves into commodities, including gold, because all these markets are too small for such a big hoard.

"For example, China's purchasing gold would push up the price of the metal and increase its own cost," said Li.

Li added that there was no easy way for China to get as much gold as it wished because major economies such as the US hold the majority of gold and market supplies are very limited.

CHINA DAILY / **LINK**

Japan is promising to cap national government borrowing next year, but only by signing an IOU and having local governments borrow instead. That's like balancing your checkbook by maxing out your credit cards and also borrowing from your parents.

If there's any country in the world that should be playing it straight on fiscal policy, it's Japan. The debt-to-GDP-ratio of over 210% is the highest in the industrialized world and already way beyond levels that triggered the Greek meltdown and has taken Italy to the brink.

The lessons of the European debt crisis appear lost on Japan's feckless leaders, who continue to use budgetary smoke and mirrors to avoid making tough decisions. A $1.2 trillion budget for the fiscal year starting in April promises to keep government bond issues below 2011's $568 billion—but only by using every trick in the book to hide the real level of borrowing.

Local bond issues to fill national revenue holes, an off-budget IOU to the state pension fund and a rush to borrow more this year to fund next year's spending all come into play. That's in addition to more conventional, yet rapidly dwindling, transfers of surpluses from special budget accounts. Without Prime Minister Yoshihiko Noda's bag of tricks, the national government might have had to add at least $137 billion in debt in the fiscal year that begins April 1, 2012.

"... The lessons of the European debt crisis appear lost on Japan's feckless leaders, who continue to use budgetary smoke and mirrors to avoid making tough decisions"

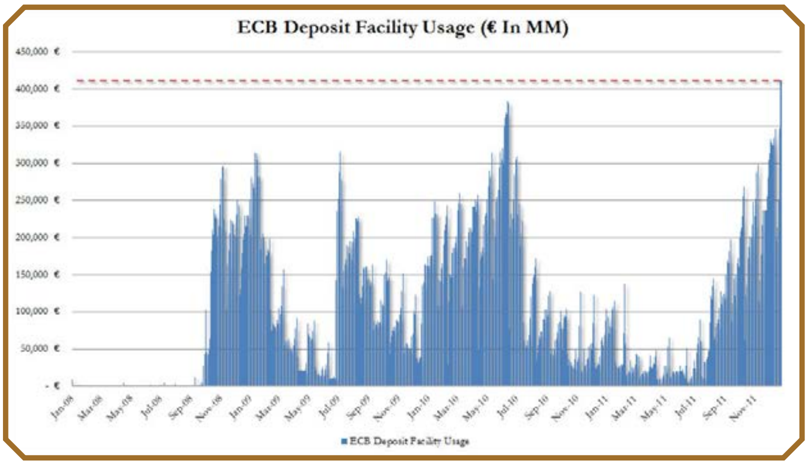
To seasoned Japan watchers, it all sounds depressingly familiar. Back in 2001, Prime Minister Junichiro Koizumi set out a plan for prefectures to issue $41 billion in "temporary fiscal countermeasure bonds." That local borrowing, which the central government eventually has to repay, allowed him to keep a campaign promise to cap national bond issues, without cutting spending too severely. A decade later, those temporary bonds are still with us, and in this year doubled to $80 billion in size.

Mr. Noda's latest round of tricks will add to Japan's already monstrous debt mountain. Furthermore, like Mr. Koizumi's temporary bonds, once started they will be difficult to stop. Come budget time next year, Tokyo will either have to cut its off-budget expenditures, bring them on budget or roll them over. There's no reason to think politicians will make better choices next year.

There's plenty of pork to trim to fund real priorities like post-earthquake reconstruction and radioactive decontamination. Nearly $90 billion in income support for farmers does little to improve their competitiveness. New rural bullet-train routes are planned on questionable demand forecasts.

Japan's debt addiction has done the economy no favors, and the euro-zone crisis is a reminder of the high potential price if the problem grows unchecked. Tokyo needs to look for ways to break the habit, not to find ingenious ways to keep it going a while longer.

WSJ / **LINK**



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SOURCE: CFR.ORG

When on Friday we penned "And This Is Where The LTRO Money Went" we said that the final nail in the "Carry Trade" theory was that instead of using the LTRO "Bazooka" cash to collect meaningless pennies in front of a steamroller, Europe's banks turned around and deposited it right back with the ECB after the bank's deposit facility soared to a 2011 record €347 billion, €82 billion more than the day before. Today, any residual doubt of where the LTRO cash proceeds went is eliminated, as the ECB has just confirmed that what goes out of one pocket comes back in the other, as the ECB's deposit facility has just exploded to not a 2011 record, but an all time record high €412 billion, a €65 billion increase overnight, and €167 billion higher in the past two days alone, which effectively accounts for practically all of the LTRO's free €210 billion.

And to those who foolishly claim this is a seasonal year end cash parking, we present the full history of the ECB's facility usage since it exploded on the scene in 2008. P;ease go ahead and show us when in 2008, 2009 and 2010 there was a spike in year end facility usage. We have all day. But wait: there's more! In another independent confirmation that all hell is about to break loose, we just saw the 1 Year Bund drop sub zero again. As a reminder, the last time it was there was in the last days of November, just before the global central bank cartel had to come in and provide a global liquidity bailout for Europe's banks. So: back to square minus one ladies and gentlemen of an insolvent Europe?

But the biggest slap in the face of Sarkozy is that instead of banks pocketing the "guaranteed" 2-3% in carry trade between the 1% LTRO rate and the soveriegn bond yield, banks are losing 75 basis point on this inverse carry trade, where they take LTRO cash and deposit it with the ECB where it yields... 0.25%!

ZEROHEDGE / **LINK**

People who own what is considered the safest type of municipal bond may be in for a surprise. This safe debt, called a general-obligation bond, is said to be the next strongest thing to Treasuries because it is backed by a "full faith and credit" pledge. That means the government that issued it will pay it on time, no matter what.

But now Jefferson County, Ala., has stopped paying such debt, breaking with convention and setting up a fundamental test of what full faith and credit truly means.

"We all want to know, 'What's the truth here?' " said Richard A. Ciccarone, chief research officer at McDonnell Investment Management. "The way I learned it, full faith and credit was considered all the taxing power of a community, and that means there's an infinite pledge. When you get into bankruptcy court, truth is something that can be revealed in a new way."

Jefferson County filed the biggest Chapter 9 bankruptcy in United States history last month, raising new uncertainty about the safest municipal bonds. Court precedent offers few answers. Municipal bankruptcies are rare, and most have involved tiny, special-purpose districts that did not even have general-obligation bonds, having issued revenue bonds, which are considered riskier because they guarantee repayment solely from money generated by a specific project like a toll road.

The few places that have gone bankrupt with general obligations outstanding have sent reassuring signals, making payments even though they were not required to in bankruptcy. Orange County, Calif., the previous Chapter 9 record-holder, took a few extra months to pay some maturing debt, but it compensated investors for the delay by giving them almost a full percentage point more interest than it otherwise owed them.

The small city of Central Falls, R.I., has been duly paying its general-obligation debtholders in Chapter 9 this year, bolstered by a new state law giving those investors priority over everybody else.

★ ★ ★ *NYTIMES* / **LINK**

The Government is considering plans to restrict the flow of money in and out of Britain to protect the economy in the event of a full-blown euro break-up.

The Treasury is working on contingency plans for the disintegration of the single currency that include capital controls.

"...Britain's response to a euro meltdown would reflect measures taken by Argentina when it dropped the dollar peg in 2002 and by Czechoslovakia after the country broke in two in 1993"

The preparations are being made only for a worst-case scenario and would run alongside similar limited capital controls across Europe, imposed to reduce the economic fall-out of a break-up and to ease the transition to new currencies.

Officials fear that if one member state left the euro, investors in both that country and other vulnerable eurozone nations would transfer their funds to safe havens abroad. Capital flight from weak euro nations to the UK would drive up sterling, dealing a devastating blow to the Government's plans to rebalance the economy towards exports.

Earlier this year, Switzerland was forced to peg its currency to the euro to protect the economy after a massive appreciation in the Swiss franc due to spiralling fears over Europe.

The plans emerged as Spain's new finance minister Luis de Guindos warned the country's economy was set for negative growth in the last quarter.

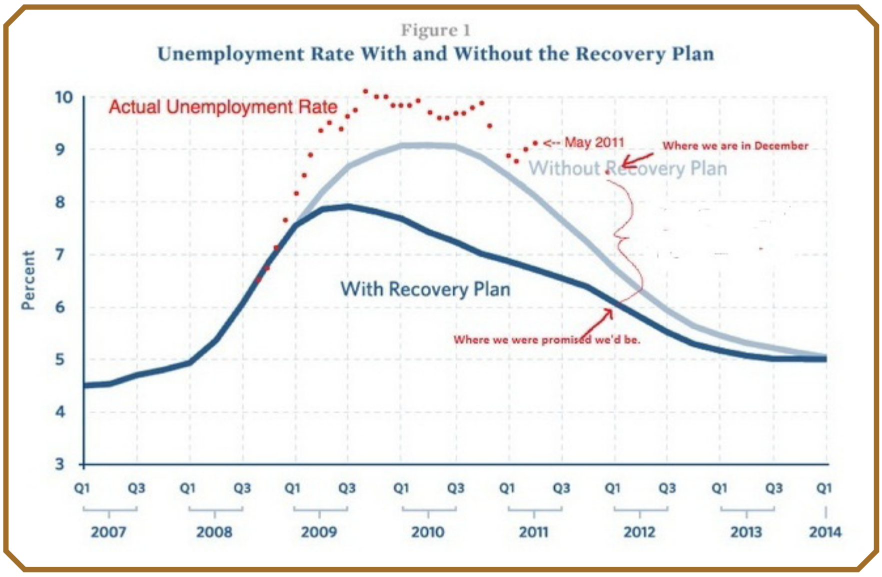
Speaking yesterday he warned the next two months "are not going to be easy".

Britain's response to a euro meltdown would reflect measures taken by Argentina when it dropped the dollar peg in 2002 and by Czechoslovakia after the country broke in two in 1993, according to sources. Faced with a massive capital inflow, the Czech Republic temporarily imposed taxes on foreign inflows to banks and capped the amount of overseas credit domestic banks could use.

In addition to the risk of an appreciating currency, dealing with potential UK corporate exposures to the euro poses a considerable challenge for the Treasury.

Britain's top four banks have about £170bn of exposure to the troubled periphery of Greece, Ireland, Italy, Portugal and Spain through loans to companies, households, rival banks and holdings of sovereign debt. For Barclays and Royal Bank of Scotland, the loans equate to more than their entire equity capital buffer.

★ ★ ★ *UK DAILY TELEGRAPH* / **LINK**

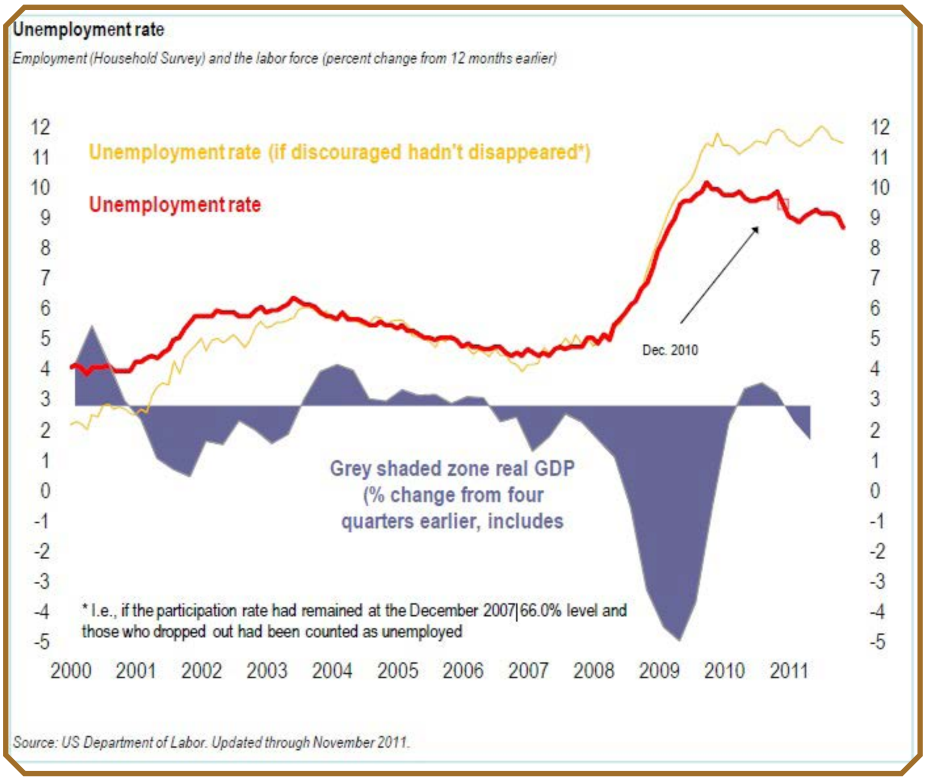


CLICK TO ENLARGE **SOURCE:** ROMER/BERNSTEIN

James Pethokoukis' '7 most illuminating graphs of 2011' includes some real crackers:

1. The overly optimistic unemployment forecast of the Obama White House.

This may be the most infamous economic prediction in U.S. political history



CLICK TO ENLARGE **SOURCE:** US DEPT OF LABOUR

2. The real unemployment rate. The official (U-3) unemployment rate is 8.6 percent. But the labor force has been shrinking as discouraged workers have been disappeared by government statisticians rather than counted as unemployed. But what if they weren't? What if the Labor Department added those folks back into the numbers? Well, you would get this:

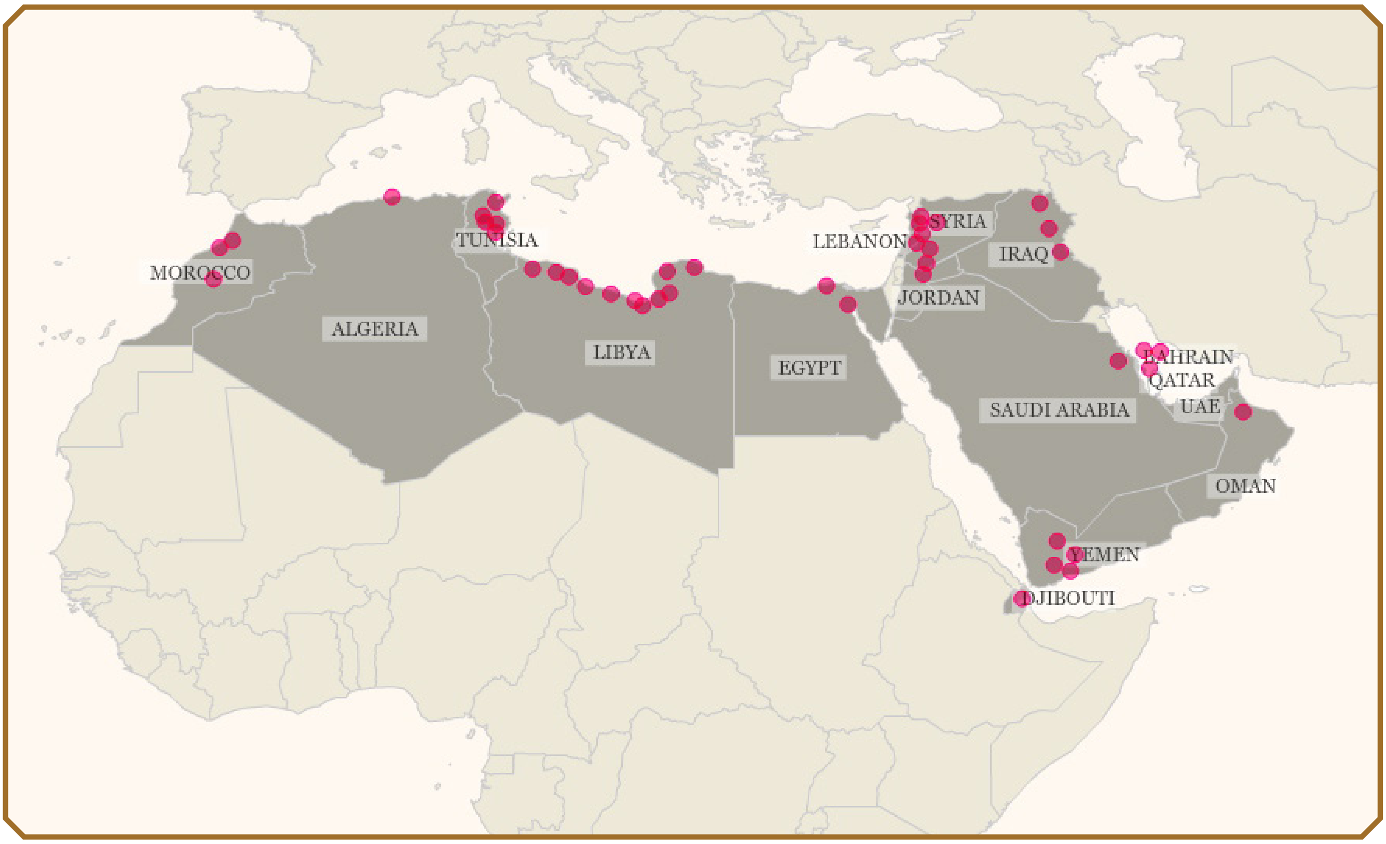
BUSINESS INSIDER / **FULL LIST**

On December 17, 2010 fruit-seller Mohamed Bouazizi set himself on fire after officials confiscated his goods, igniting a popular uprising that sent shock waves through the Arab world.

A year on, and regimes in Tunisia, Egypt, Yemen and Libya have fallen. Protests continue in Syria, and the whole region is still adjusting to new realities.

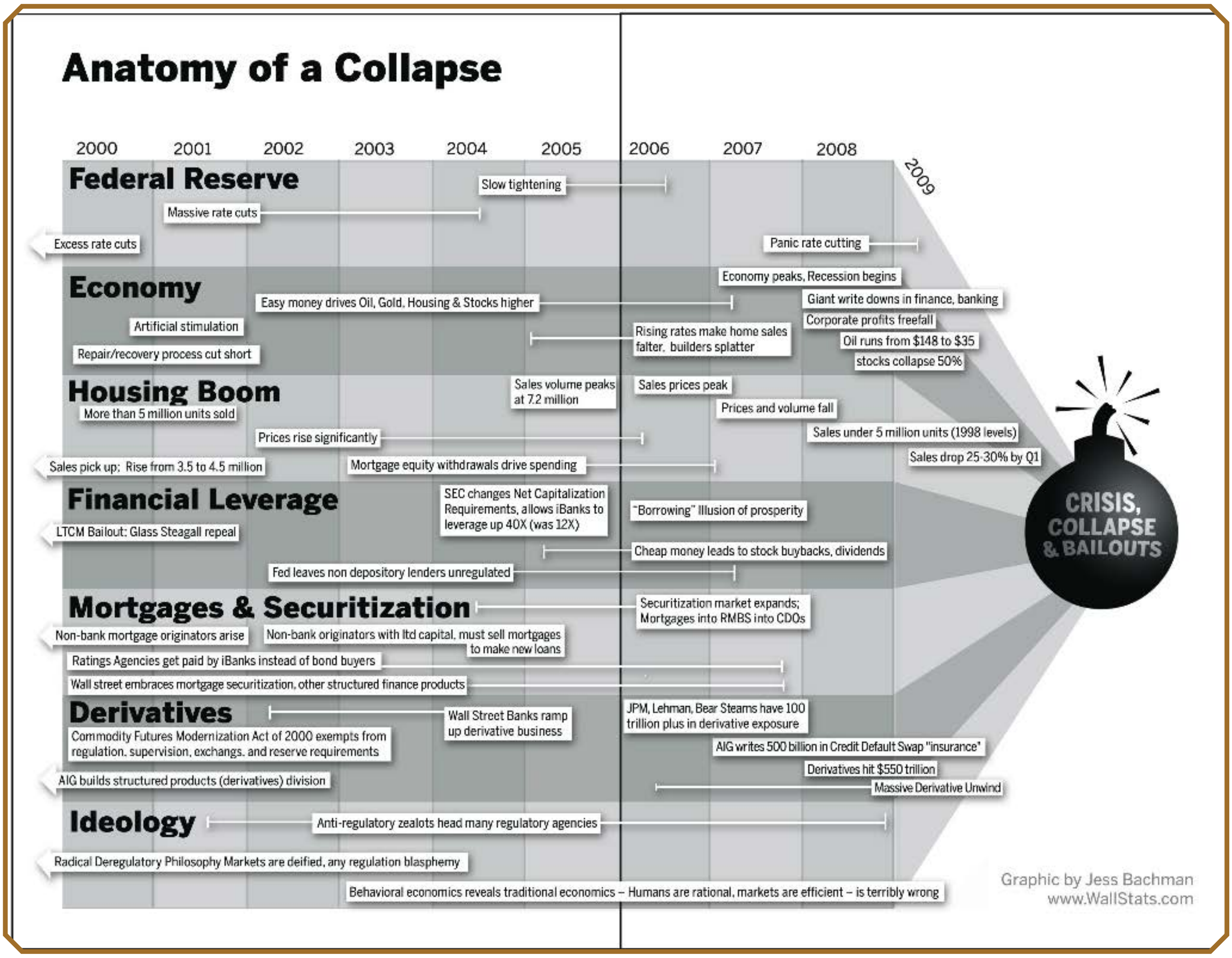
This interactive graphic maps the spread of the protests as well as assessing the current situation in each country.

FT / **LINK**



CLICK TO VIEW GRAPHIC

SOURCE: FT



CLICK TO ENLARGE **SOURCE:** **WALL ST STATS**

When I was writing Bailout Nation, I did lots and lots of research into exactly what it was that led to the housing boom and bust, the stock market crash, and the Great Recession.

The answer was "its complicated." There were many many factors, lots of bad ideas, plenty of poor judgement all around.

I summarized these into 7 broad categories. The incomparable Jess Bachman (of Wall Stats) created this fantastic graphic that is the centerfold of the book:...

The perpetrators of the big lie all have something to hide. Whether they voted for more deregulation or passed the ridiculous the CFMA or supported the repeal of Glass Steagall or cheered Alan Greenspan's monetary policy, the Big Lie supporters all bear some resposibility.

★ ★ ★ *BARRY RITHOLTZ* / **LINK**

CLICK TO LISTEN

A double-bill of Jim Puplava graces Things That Make You Go Hmmm..... today:

On Financial Sense Newshour Jim Puplava and George Karahalios sit down for a broad-ranging macro discussion covering currency wars, government intervention, the peak oil business cycle, revenge of the free market, and could the US be the next Greece?

In this second interview, Jim Puplava looks at what triggered the recent sharp decline in gold. His Big Picture analysis contrasts the paper gold market versus the physical gold market and why you need to understand the difference. John Doody of the Gold Stock Analyst joins Jim to also discuss the recent gold declines, as well as give his analysis on the direction of gold and gold & silver stocks looking ahead.

CLICK TO LISTEN

John Doody brings a unique perspective to gold stock analysis. With a BA in Economics from Columbia, an MBA in Finance from Boston University, where he also did his PhD-Economics course work, Doody has no formal "rock" studies beyond "Introductory Geology" at Columbia, taught by the University's School of Mines. An Economics Professor for almost two decades, Doody became interested in gold due to an innate distrust of politicians. In order to serve those that elected them, politicians always try to get nine slices out of an eight slice pizza. How do they do this? They debase the currency via inflationary economic policies.

CLICK TO WATCH

Satyajit Das - author of 'Traders, Guns & Money' (an absolutely superb read for those of you who haven't read it), has just published his latest work entitled 'Extreme Money: Masters Of The Universe And The Cult Of Risk'.

I was lucky enough to receive a copy of the book and found it a fantastic guide to the wizardry behind the evolution of the derivatives market.

Accessible, comprehensive and written in an easily-understandable style, the book is a must-read for anyone looking to understand the events of the past 30-odd years in finance.

Here, in a short, six-part interview, Das talks to Robert Johnson about his life in finance and his latest book.

The gentleman laying prone is defender Festus Baise who plays for Citizen in the HK football league.

On 16th December 2011, Baise may have scored the greatest own-goal of all time*...

CLICK TO WATCH

(* does not include those made by politicians)

Hmmm...

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