“Civilization is a stream with banks. The stream is sometimes filled with blood from people killing, stealing, shouting and doing the things historians usually record, while on the banks, unnoticed, people build homes, make love, raise children, sing songs, write poetry and even whittle statues. The story of civilization is the story of what happened on the banks. Historians are pessimists because they ignore the banks for the river”

– WILL DURANT

“History is filled with the sound of silken slippers going downstairs and wooden shoes coming up.”

– Voltaire

“History: gossip well told”

– Elbert Hubbard, The Roycroft Dictionary
Some days it’s just too damn easy.

Just before midnight on this day in 1912 something unthinkable happened to something unsinkable as the Titanic failed to avert its course in time and struck the iceberg that would rip a hole in five of the 16 separate compartments that made up its hull.

The 883 foot-long luxury liner had been designed so that it could withstand damage to 4 of the 16 compartments and stay afloat – thereby earning its unsinkable reputation.

The Titanic had left Southampton four days earlier, stopped in Cherbourg in France and then Queenstown in Ireland to pick up passengers before heading out into the North Atlantic en route to New York.

Below decks, a drifter named Jack Dawson and his best friend Fabrizio De Rossi had won tickets to the ship in a card game. Dawson spotted society girl Rose DeWitt Bukater, who was on her way to Philadelphia to marry her rich snob fiancé Cal Hockley. Rose felt trapped by her situation and made her way to the aft deck where she contemplated suicide until she was rescued by Jack. Cal was therefore obliged to invite Jack to dine at their first-class table where he suffered through the slights of his snobbish hosts. In return, he spirited Rose off to third class for an evening of dancing, giving her the time of her life. Deciding to forsake her intended future altogether, Rose asked Jack, who had made his living making sketches on the streets of Paris, to draw her in the nude wearing the invaluable blue diamond Cal had given her. Cal found out and had Jack locked away…. Hang on a second…. sorry, I think I may be getting my facts a little muddled.

Let’s reset.

The Titanic truly lived up to its name. It was the biggest, most prestigious ship of its day and was set to rule the seas for many years to come. There’s really no point in going into great detail about either the construction features or the tragic set of circumstances that led to the deaths of more than 1,500 poor souls that fateful night as, by now, after 99 years (not to mention a three-hour epic that chronicled the adventures of Jack Dawson and Rose DeWitt Bukater) the story is woven into the fabric of history. Instead, we shall take a look at some other ‘unsinkable ships’ that struck icebergs of a different kind and sank without trace into murky waters. Some were half-raised years later and others languish still.

We begin with the SS Roman Empire.

This behemoth sailed along on calm seas for over 300 years before, as Edward Gibbon wrote in his seminal work The History Of The Decline And Fall Of The Roman Empire:

“The decline of Rome was the natural and inevitable effect of immoderate greatness. Prosperity ripened the principle of decay; the causes of destruction multiplied with the extent of conquest; and as soon as time or accident had removed the artificial supports, the stupendous fabric yielded to the pressure of its own weight,”
According to Wikipedia:

“The decline of the Roman Empire was not a single event but a gradual process that lasted several centuries. This process was characterized by increasing economic inequality, incompetent political and military leadership, foreign invasions and political instability resulting in repeated usurpations and all-out civil war. On the other hand, under some strong emperors, the Empire enjoyed stretches of respite from its woes.”

Do you see where we’re going with this yet? Of course you do, but bear with me anyway – it’s rude to jump ahead.

Back to Wikipedia:

“One of the most enduring types of evidence left behind by the later Roman Empire is its coinage. A set of coins from the later years of the Western Roman Empire shows significant evidence of numismatic adulteration, particularly in coins originally minted in silver. In later years, similar coins came to be minted out of base metal, often with only a thin cladding or coating of the precious metal.

Many historians argue that the rapid growth of the empire over a relatively short time and the economic inflation that followed contributed substantially to the empire’s decay. Due to the vast size of the empire, it required an enormous budget to maintain the infrastructure necessary for its survival, including roads (essential for communication, transportation, and the moving of armies) and aqueducts (many cities relied on the water thus provided). Moreover, the empire faced enemies on all sides due to its expansion into their territories, and huge sums of silver and gold were required to keep up its armies. To cope with both problems, the empire was forced to raise taxes frequently, and also to adulterate its coins, causing inflation to skyrocket into hyperinflation. This in turn caused major economic stresses that some historians regard as central in Rome’s decline.”

So, among the many reasons given for Rome’s decline by historians through the ages, two of the most consistent were debasement of the currency and overstretching of the military. For the purposes of this piece, we’ll leave Rome for now and move forward in time to one of my own personal favourite Empires - The British Empire.

Now, as Empires go, this was quite a civilized one in places (though less so in others). The British managed to colonize half the world due, in large part to the strength of their military forces – particularly the navy - and, as one would expect from the Brits, they ran a pretty tight ship for a while.

Unfortunately, in the late 1700s, there was a small misunderstanding with those pesky colonials over in America who seemed rather upset at having to pay extortionate taxes to His Majesty’s government. A bit of a scuffle ensued and America was lost.
THINGS THAT MAKE YOU GO Hmmm...

That small hiccup notwithstanding, in the 19th and early 20th centuries alone, Britain added approximately 10,000,000 square miles of territory and roughly 400 million people to that Empire. This period became known as The Imperial Century and Britain, literally, ruled the world – her dominant position in world trade giving effective control over the economies of China, Argentina and Siam in addition to those countries over which she officially presided. In the midst of this boom period, the British paid Egypt’s ruler £4 million for a 44% stake in the Suez Canal – a purchase that, a little less than a hundred years later, was to come back and haunt the British.

We’ll get to the reasons for that shortly, but first we hop forward to the end of WWII when a virtually bankrupt Britain avoided insolvency based purely on a $3.5billion loan from the United States – an amount which, translated into 2011 dollars would be – you’ve guessed it, our favourite number this week, $39 billion.

But I digress.

In a previous incarnation of this publication I have written at length about the Suez Crisis of 1956 and how it effectively heralded the end of the British Empire and so, in an attempt not to alienate long-time readers, we’ll skip over the background and get to the denouement which, after a revolution in Egypt and a clandestine plan by Britain and France to engineer an Israeli attack on Nasser’s revolutionary government resulted in British troops successfully re-taking the Canal.

The story ends, however, with a whimper rather than a bang.

President Eisenhower, fearful of Russia being dragged into the conflict, went for the over-extended Empire’s jugular vein and threatened to sell the United States’ reserves of British Government Bonds. The mere threat of the savage devaluation this act would cause to the once-mighty British Pound (allied to a coordinated oil embargo by Saudi Arabia) and the realization that Britain was now too indebted to be able to afford necessary food and energy imports almost instantaneously, was enough to send Britain’s troops scuttling homewards within the week.

So there we have the briefest synopses of the ignominious ends of a couple of common or garden Empires. So how’s the current one doing?

Well, readers of these pages are hardly strangers to budget deficits, unfunded liabilities, bailouts and the like but things seem to be shifting a little of late. Press coverage of the ‘heroic’ avoidance of the government shutdown moved rather quickly from praise to ridicule, Bill Gross has taken to betting against the US government, the upcoming raising of the budget deficit ceiling has all but been discounted as the inevitable sham it is and, perhaps most importantly, the public are getting somewhat restless.

It is never a surprise when either the press or politicians jump on a certain issue as their reasons for doing so are always simple to define – they will either sell more newspapers, or win more votes. It really IS that simple.

Lately, if you look closely enough, you will notice certain perceptible shifts on certain polarizing issues that suggest a wind of change is a-blowing.

Warren Buffett’s saintliness has been replaced as a tool to sell newsprint by his possible foibles, Ron Paul has become less of a nuisance and more of a voice of sanity, Obama has gone from ‘Hope and Change’ to ‘Hope He’ll Change’, hell, even gold bugs have moved from the rough to the fairway and,
perhaps most portentous of all, the constant noise emanating from Fed governors designed to move markets in the direction that suits them has become something akin to radio interference in that people don’t *REALLY* pay much attention.

**Last night, Barack** Obama gave a speech which focused on debt in which he promised to cut $4 trillion from the budget in 12 years. Excellent. No, really, that’s great news. After all, forecasts from the White House on budget deficits are always spot-on, right? Well let’s check in with an article from the good folks at Zerohedge posted a little over 3 weeks ago:

> “Today the Congressional Budget Office slammed the president’s unrealistic budget presented recently, concluding that the cumulative deficit over the decade between 2011-2021 would be $9.5 trillion, or $2.3 trillion higher than that estimated by the White House. The reason for the differences according to the CBO is “differences in the underlying projections of what would happen under current law ($1.3 trillion) as well as from differing assessments of the effects of the President’s proposals ($1.0 trillion).” Then again, as we fail to recall when was the last time even the slightly more realistic CBO predicted a correct cumulative deficit ten years forward, we are fairly certain both will vastly underestimate the actual deficit by 2021. And as gross debt issuance tends to run about 50% over cumulative deficits, Zero Hedge expects that the best case scenario is for $15 trillion in debt issuance over the next 10 years as a baseline, and likely far more (bringing total marketable debt to around $25 trillion by 2021). This is problematic to say the least, because as the AP notes, the White House’s goal is to reach a point where the budget is balanced except for interest payments on the $14 trillion national debt. Such “primary balance” occurs when the deficit is about 3 percent of the size of the economy, and economists say deficits of that magnitude are generally sustainable. Instead, just the interest expense per the CBO will be greater than this threshold: “Outlays would be greater under the President’s budget than in CBO’s baseline in each of the next 10 years, largely because the proposed reduction in revenues would boost deficits and thus the costs of paying interest on the additional debt that would accumulate. In particular, net interest payments would nearly quadruple in nominal dollars (without an adjustment for inflation) over the 2012–2021 period and would increase from 1.7 percent of GDP to 3.9 percent.”

So in 12 years time, when Obama is 11 years removed from his first (only?) term as President, the day of reckoning will be here.

Anybody else Remember Jimmy Carter’s words from 1977?:

> “…I am tonight setting a clear goal for the energy policy of the United States. Beginning this moment, this nation will never use more foreign oil than we did in 1977 — never. From now on, every new addition to our demand for energy will be met from our own production and our own conservation. The generation-long growth in our dependence on foreign oil will be stopped dead in its tracks right now”
How’d that work out? Well, take a look at the chart on the previous page.

Promises are wonderful things. They instill trust, calm nerves and offer hope of a brighter tomorrow. They also get far easier to make the longer the time allowed for them to be evaluated.

For those of you who missed last night’s speech, I will paraphrase it for you here:

At a stroke, Obama offered to tax the rich, cut the military budget and yet never accept a cut that would “compromise our ability to defend our homeland or America’s interests around the world”, protect the middle class, promote economic growth, reduce health care costs by not reducing health care (in fact, he proposed to make Medicare and Medicaid far stronger by saving $500 billion - hell, why not save $1 trillion and make them impervious to pain altogether?), strengthen Social Security without slashing benefits for future generations, find the Fountain of Youth, ride a unicorn across the White House Lawn and explain the final episode of Lost.

He laid out a bunch of plans and strategies to achieve all these aims, paused for effect at ALL the right times and conveyed the necessary gravitas. In style terms it was a very good speech.

Joe Biden certainly thought so.

**Two previous Empires** that straddled the world were eventually undone by the debts they had built up in maintaining their hegemony. Ernest Hemingway laid out how such misadventures end perfectly in *The Sun Also Rises*:

“**How did you go bankrupt?**” Bill asked.

“Two ways,” Mike said. “Gradually and then suddenly.”

Over the past eighteen months, as we have watched Greece, Ireland and Portugal gradually then suddenly go bankrupt, it should have become evident to all that we have been watching the US gradually go the same way. Soaring debt levels, aggressive currency debasement through continued stimulus, a seemingly never-ending list of bailouts totaling in the hundreds of billions of dollars, not to mention military bills that would have had Roman Emperors fashioning coins from clay - the list is seemingly endless.

Of course, those amongst us who suggest the end game could be fast-approaching for the United States forget one important difference between the former British colony and the likes of Greece, Ireland and Portugal:

**The United States** is completely unsinkable.

Rats! Out of space again so here’s a quick look at what you’ll find in these pages today:

Feisty nuns, the IMF, Wall Street housewives, CIA spies, German nuclear companies, melt-ups & melt-downs, Chinese investments in Spanish banks, a ‘wall of debt’, plunging optimism, silver, gold, treasuries, Simon Johnson, Eric Sprott, John Taylor and Barack Obama channeling Charlie Sheen.

**What else could** you possibly need on a Thursday?
Contents

Nuns Challenge Goldman Sachs Over Executive Pay
IMF Warns US To Make A ‘Down Payment’ On Deficit
The Real Housewives Of Wall Street
U.S. Economic Optimism Plummet In March
Pakistan Tells U.S. It Must Sharply Cut C.I.A. Activities
Singapore’s SMX Launching Copper, Gold, Silver Trade
German Nuclear Companies Stop Eco-Fund Contributions
When Will Fed-Created Melt-Up Turn Into A Meltdown?
China Studies $13 Bln Investment In Spain Banks
China Inflation Threat Underestimated
Global Recovery At Risk From Banks’ ‘Wall Of Debt’, IMF Warns
Charts That Make You Go Hmmm.....
Words That Make You Go Hmmm.....
And Finally.....
**Lloyd Blankfein, head** of Goldman Sachs, may believe he is “doing God’s work” but Sister Nora Nash has other ideas. A nun and one of the Sisters of St Francis of Philadelphia, Nash says her founding saint would be “spinning in his grave” if he knew what the Goldman elite were paying themselves. Next month she will join an interfaith group of investors attending the bank’s annual general meeting, who plan to make sure that Blankfein and his associates know exactly how they feel.

Goldman is paying its top five directors just shy of $70m (£43m) for all their hard work in 2010. It’s a sum Nash, a twinkly-eyed, soft-spoken woman, describes as “sinful”. As the director of corporate social responsibility for her community, she has put her name to a resolution that calls on the bank to review “excessive” pay deals, give shareholders more detail and justify its remuneration policy. It has no chance of passing but Nash believes she has a higher calling, to hold up a mirror to corporate America in the hope it might see its true face and mend its ways.

There could be dire consequences if it doesn’t, she believes. “There is a culture of greed and this culture tells me there is a philosophical and ethical divide between these corporations and the ordinary person on the street,” she says. “The middle class is disappearing. We are really concerned about the person who owns a home, does their job, lives as best they can. There is an awful lot of goodness in the American culture that is being swamped by greed, by selfishness. Everybody wants to be on top.”

And that culture is exacerbated by a corporate elite that thinks its outsize pay packets are justified, she says. “I know Goldman think they have been singled out, but they haven’t,” she says. Two years ago Goldman was memorably described as a “giant vampire squid” in a venomous Rolling Stone article that has become one of the signature credit crunch polemics. However, Nash is more emollient. “At this point Goldman is not too bad,” she adds, smiling.

Ford is paying its chief executive, Alan Mulally, $26m; Viacom’s Philippe Dauman got $84m. Nash says: “The median pay of the top 200 managers of companies in the US is more than $9m. Isn’t that sinful? How can anybody rationalise that?”

What does she mean by sinful? “It meets no social justice criteria,” she says. “What we are saying to people like Goldman Sachs is that this is excessive, excessive, excessive. Lloyd Blankfein could make in three hours what the average American makes in a year.”

The US should make a ‘down payment’ this year on tackling its budget deficit, the International Monetary Fund has warned, as it emerged that the world’s biggest bond investor is shorting the country’s bonds.

America will rack up a budget deficit of 10.8pc of gross domestic product this year, the largest of any of the developed economies, the IMF said in its latest Fiscal Monitor report.

In sharp contrast to Britain and much of the rest of Europe, the US has so far delayed any move to cut
its budget deficit. Instead, through a combination of extending tax cuts and a second, $600bn round of quantitative easing, Congress and The White House have focused efforts on trying to quicken a recovery that failed to take off last year.

Bill Gross, who manages the world’s biggest bond fund at Pacific Investment Management Co (Pimco), said it was the failure of politicians in Washington DC to take the country’s deficit - estimated to reach about $1.5 trillion next financial year - seriously that has prompted him to start positioning the $236bn Total Return Fund to benefit from a drop in US government bond. In February, the fund sold its US governments bonds, or Treasuries.

“Without attacking entitlements - Medicare, Medicaid and Social Security - we are smelling $1 trillion deficits as far the nose can sniff,” Mr Gross said in the firm’s monthly outlook.

President Barack Obama, who is facing increasingly loud calls from Republican opponents to reduce the deficit, is expected to lay out measures on Wednesday.”Market concerns about sustainability remain subdued in the US, but a further delay of action could prove costly,” the IMF said. The US should move “sooner rather than later”,” Carolo Cottarelli, the director of the IMF’s fiscal division said in Washington DC on Tuesday.

America has two national budgets, one official, one unofficial. The official budget is public record and hotly debated: Money comes in as taxes and goes out as jet fighters, DEA agents, wheat subsidies and Medicare, plus pensions and bennies for that great untamed socialist menace called a unionized public-sector workforce that Republicans are always complaining about. According to popular legend, we’re broke and in so much debt that 40 years from now our granddaughters will still be hooking on weekends to pay the medical bills of this year’s retirees from the IRS, the SEC and the Department of Energy.

“...the Federal Reserve handed them both low-interest loans of nearly a quarter of a billion dollars through a complicated bailout program that virtually guaranteed them millions in risk-free income.”

Most Americans know about that budget. What they don’t know is that there is another budget of roughly equal heft, traditionally maintained in complete secrecy. After the financial crash of 2008, it grew to monstrous dimensions, as the government attempted to unfreeze the credit markets by handing out trillions to banks and hedge funds. And thanks to a whole galaxy of obscure, acronym-laden bailout programs, it eventually rivaled the “official” budget in size — a huge roaring river of cash flowing out of the Federal Reserve to destinations neither chosen by the president nor reviewed by Congress, but instead handed out by fiat by unelected Fed officials using a seemingly nonsensical and apparently unknowable methodology.

Now, following an act of Congress that has forced the Fed to open its books from the bailout era, this unofficial budget is for the first time becoming at least partially a matter of public record. Staffers in the Senate and the House, whose queries about Fed spending have been rebuffed for nearly a century, are now poring over 21,000 transactions and discovering a host of outrages and lunacies in the “other” budget. It is as though someone sat down and made a list of every individual on earth who actually did not need emergency financial assistance from the United States government, and then handed them the keys to the public treasure. The Fed sent billions in bailout aid to banks in places like Mexico, Bahrain and Bavaria, billions more to a spate of Japanese car companies, more than $2 trillion in loanseach to Citigroup and Morgan Stanley, and billions more to a string of lesser millionaires and billionaires with Cayman Islands addresses. “Our jaws are literally dropping as we’re reading this,” says Warren Gunnels, an aide to Sen. Bernie Sanders...
of Vermont. “Every one of these transactions is outrageous.”

But if you want to get a true sense of what the “shadow budget” is all about, all you have to do is look closely at the taxpayer money handed over to a single company that goes by a seemingly innocuous name: Waterfall TALF Opportunity. At first glance, Waterfall’s haul doesn’t seem all that huge — just nine loans totaling some $220 million, made through a Fed bailout program. That doesn’t seem like a whole lot, considering that Goldman Sachs alone received roughly $800 billion in loans from the Fed. But upon closer inspection, Waterfall TALF Opportunity boasts a couple of interesting names among its chief investors: Christy Mack and Susan Karches.

Christy is the wife of John Mack, the chairman of Morgan Stanley. Susan is the widow of Peter Karches, a close friend of the Macks who served as president of Morgan Stanley’s investment-banking division. Neither woman appears to have any serious history in business, apart from a few philanthropic experiences. Yet the Federal Reserve handed them both low-interest loans of nearly a quarter of a billion dollars through a complicated bailout program that virtually guaranteed them millions in risk-free income.

**Americans’ optimism about the future direction of the U.S. economy plunged in March for the second month in a row, as the percentage of Americans saying the economy is “getting better” fell to 33% -- down from 41% in January. It is also down three points from the 36% of March 2010.**

Optimism in March essentially matches last year’s low points: 32% in July, 33% in August, and 32% in September. However, it remains higher than it was throughout 2008 and early 2009.

While upper-income Americans remain more optimistic than their lower- and middle-income counterparts, optimism among both groups declined substantially in March. Despite Wall Street’s strong first quarter performance, the percentage of upper-income Americans saying the economy is getting better fell to 41% in March from 50% in January, leaving it at the same level as a year ago. Lower- and middle-income Americans’ economic optimism also fell in March, to 32%, from 40% in January.

Optimism about the future of the economy declined across all political parties during the first quarter. Democrats remain the most optimistic, with 45% saying things are getting better, but this is down from 55% in January and 52% a year ago. Independents’ economic optimism is at 31% and Republicans’ at 21% -- both down from January...

Gallup’s Economic Confidence Index, which includes the economic optimism measure, also plunged in March to -31. This is worse than the -21 in January and about the same as the -30 of a year ago.

The Index is based on two questions, which measure Americans’ views of current economic conditions and their future expectations. The sharp decline in the latter brought down the index score in the first quarter of the year. Americans’ perceptions of current economic conditions are not much different in March -- with 44% rating the economy “poor” -- than they were in January, when 42% said the same.
Pakistan has demanded that the United States steeply reduce the number of Central Intelligence Agency operatives and Special Operations forces working in Pakistan, and that it halt C.I.A. drone strikes aimed at militants in northwest Pakistan. The request was a sign of the near collapse of cooperation between the two testy allies.

Pakistani and American officials said in interviews that the demand that the United States scale back its presence was the immediate fallout from the arrest in Pakistan of Raymond A. Davis, a C.I.A. security officer who killed two men in January during what he said was an attempt to rob him.

In all, about 335 American personnel — C.I.A. officers and contractors and Special Operations forces — were being asked to leave the country, said a Pakistani official closely involved in the decision.

It was not clear how many C.I.A. personnel that would leave behind; the total number in Pakistan has not been disclosed. But the cuts demanded by the Pakistanis amounted to 25 to 40 percent of United States Special Operations forces in the country, the officials said. The number also included the removal of all the American contractors used by the C.I.A. in Pakistan.

The demands appeared severe enough to badly hamper American efforts — either through drone strikes or Pakistani military training — to combat militants who use Pakistan as a base to fight American forces in Afghanistan and plot terrorist attacks abroad.

The reductions were personally demanded by the chief of the Pakistani Army, Gen. Ashfaq Parvez Kayani, said Pakistani and American officials, who requested anonymity while discussing the delicate issue.

The scale of the Pakistani demands emerged as Lt. Gen. Ahmed Shuja Pasha, the head of Pakistan’s chief spy agency, the Inter-Services Intelligence Directorate, or the ISI, arrived in Washington on Monday for nearly four hours of meetings with the C.I.A. director, Leon E. Panetta, and Adm. Mike Mullen, the chairman of the Joint Chiefs of Staff.

Two senior American officials said afterward that General Pasha did not make any specific requests for reductions of C.I.A. officers, contractors or American military personnel in Pakistan at the meetings.

The Singapore Mercantile Exchange will launch cash-settled gold, silver and copper futures contracts on April 15, the exchange said in a press release, which may carve out a new market for speculators seeking arbitrage opportunities.

“(The) exchange will begin trading cash-settled gold, silver and copper futures contracts from April 15, 2011, in contract sizes of 100 troy ounces, 5,000 troy ounces and 5 metric tons (MT) respectively,” the exchange said in the note.

SMX, controlled by Financial Technologies (India) Ltd, has previously said it plans to launch a cash-settled iron ore futures contract, based on the iron ore index by data provider Metal Bulletin which uses a 62 percent iron content benchmark.

Currently the exchange, which began trading on Aug. 31 2010, offers physically deliverable gold futures as well as euro-dollar and oil futures.

Traders said the copper contract might gain attention.

“The copper contract looks very interesting. If it develops sufficient liquidity, we could see a golden
opportunity to arbitrage between this new contract and the LME-SGX minis,” a Singapore trader said. “We’ll keep an eye on the gold and silver offerings too, but I am less confident of success there.”

In February, the Singapore Exchange (SGX) launched small-sized, cash settled metal futures with the London Metal Exchange.

“We are also confident of gaining the attention of arbitragers, algorithmic and high frequency traders to use our low latency, robust and scalable trading platform,” SMX CEO Thomas McMahon said. But the trader said an arbitrage opening was not guaranteed. “Arbitrage relies on market inefficiencies to cause prices to fall out of step. Both SMX and SGX say their platforms are fast and the contracts are cash-settled.” That may mean any arbitrage opening will be narrow and short lived. That may make it a playground for the algo-guys, but not necessarily for us. We will have to see.”

THINGS THAT MAKE YOU GO Hmm...

Chancellor Angela Merkel’s about-face on atomic energy policy is getting expensive. Four companies which operate nuclear reactors in Germany have ceased paying into a fund meant to promote renewable energies -- even as the eco-revolution is to be accelerated.

Chancellor Angela Merkel’s vision of the future seemed eminently attainable last autumn. In return for her government’s plan of extending the lifespans of Germany’s 17 nuclear reactors, the country’s leading electricity utilities agreed to pay a portion of the resulting profits into a fund to promote renewable energies -- a pot which initial calculations indicated would ultimately be worth €17 billion ($24.5 billion). In addition, a new fuel rod tax on nuclear plants was to boost the budget by an estimated €2.3 billion per year until 2016.

That, though, was before the nuclear disaster in faraway Fukushima, Japan.

Now, Merkel’s sudden policy reversal on nuclear energy, involving the temporary shutdown of seven reactors and an accelerated switch to renewables, has thrown her financing plans into doubt. Not only does her government intend to dramatically increase funding for expanding the reach of renewables, but the four companies in Germany which operate nuclear power plants have ceased paying into the renewable energies fund.

According to information obtained by SPIEGEL, the four companies -- E.on, RWE, Vattenfall and EnBW -- informed the Chancellery of their decision last Friday. The cessation is to go into effect this week. In addition, the shutdown of the country’s seven oldest reactors, which many expect to become permanent, will significantly reduce revenues from the fuel rod tax -- a levy which was a key component of German efforts at reducing its budget deficit.
Merkel’s government established the renewable energies fund last autumn in an effort to avoid the appearance that the nuclear lifespan extension was merely a vast economic gift to the country’s power utilities. The four companies are now arguing that the temporary shutdowns -- and the possible reversal of the lifespan extensions -- remove the legal basis for payments into the renewables fund.

The move comes on the heels of RWE’s decision last week to file a legal complaint against the shutdown of its Biblis A reactor. Should RWE win, which many observers think it might, it would make clear just how shaky the legal basis of Merkel’s nuclear about-face is.

Many in Merkel’s governing coalition, which pairs her conservatives with the business-friendly Free Democrats, have begun to publicly question her new nuclear course. Christian Lindner, general secretary of the FDP, said that “we want to shut down nuclear plants more quickly, but we shouldn’t abandon rationality.” He warned against any moves that would result in rapidly rising energy costs.

Volker Kauder, floor leader for Merkel’s conservatives in German parliament, said “if we want a future without nuclear energy, we must realize that we won’t be able to maintain our standard of living and our employment situation in Germany.”

The following chart says it all. The Fed’s aggressive Treasury monetization has been the causa proxima (90-percent correlation) to the peddle-to-the-metal Minsky Meltup in commodities. I suspected this would be the effect but confess I did not believe the Fed and government could be so irrational as to attempt it, especially with the blowback evident by year end. Though I am one of the most persistent critics of the Fed, this exceeded even my worst fears. This is what Bernanke refers to as “temporary” inflation. Nor did I anticipate the markets ignoring such clear and present danger. The transmission of this inflation disease appears to take about six months, which corresponds to the MIT price survey I have been using. It, too, now shows that inflation is in full swing.

The question now: When does the meltup switch into a full-fledged meltdown of the global economy? In spite of all warning signs that the Fed has ignored over the past few months, the switchover is now transmitting at such a rapid pace that it could happen in either one great shock or in a series. In my view, the 320 level on the CRB was more than enough to trigger the switch, and it corresponds with the first riots in Tunisia and then Egypt. If the Fed continues its purchases, we can calculate that each new $100 billion of Treasury purchased will add about 5 percent to the commodity index and $7 to oil. It takes four weeks for the Fed to purchase $100 billion in Treasuries. What a game of chicken being played out and right before our eyes! You can sense the collision, flying glass, blood, and bones at almost any moment. If the Fed desists or scales down its Treasury buying, the stark trillion dollar question becomes who will buy them?
The Chinese government again tightened its monetary policy belt April 6 while most of the country was on pause for the annual Tomb Sweeping holidays.

The latest notch-up came in the form of a surprise interest rate hike by the central bank to 3.25 percent from 3 percent. It was the fourth rate hike since the current round of tightening began in October 2010. In addition, the central bank has raised the bank deposit reserve ratio nine times during the same period.

Executives at the nation’s commercial banks, state-owned enterprises (SOEs), and small- and medium-sized companies (SMEs) returned to work after the holidays with mixed feelings. Some faulted policymakers for too much exuberance, while others called for even more tightening.

Among the loudest complainers were those small- and medium-sized commercial banks struggling for months under multiple constraints, including ever-higher capital adequacy, reserve and loan-to-deposit ratios.

These are likewise increasingly difficult times for financially squeezed SMEs, many of which have seen their credit dwindle or disappear.

Yet the nation’s belt-tightening policymakers have found plenty of support at major SOEs and the biggest banks.

Despite the latest rate increases and other restrictions, policy-related pressure has been light overall for most large SOEs, except for those linked fast-train projects led by the government’s scandal-shaken railway ministry and the nuclear power sector, which is getting a second look due to safety concerns following the Japanese earthquake.

Big commercial banks appear up to the tightening task as well. With ample liquidity in the market, they have allowed to freely continue scrambling for more scale and market capitalization without changing credit volumes significantly.

Market optimism about liquidity levels has had a positive effect on short-term interest rates. The day after the central bank’s interest rate increase, the Shanghai interbank short-term market interest rate fell 32.58 basis points to 2.0625 percent.

Recently there has been a meme spreading in the internet that the Fed does not really need to do QE3 as the central bank can maintain bid interest at sufficiently high levels by merely rolling and extending maturing debt, a form of QE Lite Version 2, where the Fed’s balance sheet is kept constant even as MBS are prepaid and Treasuries mature. The argument goes that based on some “logic” and lots of estimates it is “reasonable” to assume that $750 billion in MBS preps and Treasury maturities will depart the Fed’s balance sheet and need to be repurchased in the open market in keeping with a pro forma QE Lite V2.0 mandate. This is false. Here’s why.
First: one does not need to engage in complex calculations of what the maturity profile of the Fed’s holdings are - it is there available for anyone with an internet connection to see for themselves. In each and every H.4.1 update (go ahead, click) the Fed lists the maturity portfolio of its assets. The most interesting for the purposes of this analysis is the securities due in under one year. This includes in addition to Treasurys, MBS and Agencies, also the following items completely irrelevant for this exercise: Reverse Repos, Term Deposits, Liquidity Swaps and Other loans. As the chart below shows, and as anyone with a calculator can estimate, there is $141 billion in Treasury, Agency and MBS maturities in under one year (and just $108 billion in purely Treasury holdings). This number is one tenth of the ongoing monetization of $900 billion in USTs and MBSs in the November-June period, or $1,350 billion annualized. In other words: simply rolling MBS and Treasuries will have one tenth the impact of the ongoing quantitative easing program. Period. End of Story.

Chinese investors including the country’s sovereign wealth fund may inject $13 billion into Spanish banks, a government source said on Wednesday after Spain’s premier met financial authorities in Beijing.

There was no immediate comment from Beijing and it was not clear what terms would make the risk attractive to China, which has invested cautiously in overseas financial markets in the last couple of years partly to avoid any criticism it is squandering reserves.

Concerns about delays in recapitalising Spain’s ailing savings banks -- heavily exposed to bad loans from a burst property bubble -- have overshadowed the euro zone state’s efforts to convince markets it will not need a bailout.

According to official estimates the savings banks -- which are known as cajas and hold about half the deposits in Spain’s financial system -- need about 15 billion euros in fresh funding to meet strict new financial targets.

But private estimates go eight times higher than that when taking into account future losses from real estate writedowns.

Spanish Prime Minister Jose Luis Rodriguez Zapatero is visiting China and Singapore this week, meeting with officials and fund managers to persuade them that Spain’s sovereign bonds and its financial system are a good investment.

Speaking by telephone from Beijing, the Spanish government source told Reuters that Chinese sovereign wealth fund China Investment Corporation was studying an investment of $9 billion, and that private entities might add an additional $4 billion.

China is looking at two possible investment structures, either investing directly in specific cajas, or savings banks, or creating a general fund that the cajas would be able to tap, another Spanish government source told Reuters in Beijing.

“If this is true it is positive for the market. If CITIC or another Chinese vehicle invests 9 billion euros that would represent around 5% of the equity in the Spanish banking system,” said a London-based analyst who asked not to be named.

“It wonder if some of this is to buy banks’ or cajas’ debt, in which case the impact gets diluted.”
China is poised to become an “exporter of inflation to the rest of world”, according to Legal & General Investment Management (LGIM), which warned that the threat from rising prices in the world’s second-biggest economy is underestimated.

The era in which cheap Chinese exports helped to keep prices down is now behind us, according to the insurance giant’s fund division.

Instead, “as inflation becomes more and more of a concern in advanced economies, China is going to be making things worse,” said Brian Coulton, an emerging markets strategist at LGIM.

While many commentators suggest Chinese price rises are peaking, Mr Coulton believes that Beijing is not on top of inflation – expected to come in at 5.5pc for March – which threatens a more painful tightening process to rein in prices than many expect.

“This means rising risk to the country’s macroeconomic stability and of growth falling from the current 10pc a year to 4pc or 5pc.” Mr Coulton said.

If China’s economic growth does halve as feared, it could have serious implications for the global recovery. LGIM’s argument is that soaring food prices are not a temporary driver of inflation, but reflect underlying pressures from rising demand rather than one-off supply shocks.

Lending has been expanding rapidly, while wage inflation is rising as cities find the pool of cheap labour from the countryside is not infinite.

In addition, measures from Beijing to rein in prices are running into difficulties, LGIM believes. Banks are “getting around” lending quotas with off-balance sheet transactions, which see loans repackaged as investment products.

The “most pressing” challenge facing the global recovery is funding banks and governments, according to the International Monetary Fund (IMF), which warned that a major hurdle was looming.

The world’s banks face a $3.6 trillion (£2.2 trillion) “wall of maturing debt” in the next two years alone, but must compete against governments to secure new financing, the fund said.

“These bank funding needs coincide with higher sovereign refinancing requirements, heightening competition for scarce funding resources,” the latest global financial stability report from the IMF warned.

Irish and German banks faced the most “acute” need to rollover their debt, with as much as half of all their outstanding debt due in the next two years, said the IMF, which saw Europe’s banks as posing a particular threat to the financial system.

“Many institutions – particularly weaker European banks – are caught in a maelstrom of inter-linked pressures that are intensifying risks for the system as a whole,” it said.

With a number of European banks – “nearly all” of those in Greece, Ireland and Portugal, as well as some in Spain and Germany – now priced out on of the wholesale funding markets, there is a risk that negative news could see more institutions join them, said the IMF.
The early signs of a correction in U.S. equities have been accompanied by a rise in Treasuries and a decline in yields... The question is whether this reversal in Treasuries has staying power.

The behavior of Treasuries is an area of special interest in light of the Fed’s second round of quantitative easing, which was formally announced on November 3rd.

The [first] chart is an overlay of the CBOE Interest Rate 10-Year Treasury Note (TNX) and the S&P 500.

The [bottom, left] chart shows the daily performance of several Treasuries and the Fed Funds Rate (FFR) since 2007. The source for the yields is the Daily Treasury Yield Curve Rates from the US Department of the Treasury and the New York Fed’s website for the FFR.

The yield spread had been widening in November and much of December and since then has contracted a bit. The [bottom, right] chart shows the 2- and 10-year yields with the 2-10 spread highlighted in the background.

* * * DSHORT / LINK
Simon Johnson, speaking at the INET Bretton Woods Conference last week, decides, in his own words, to take the gloves off when talking about the problems of banks that are too big to fail.

He doesn’t stop there...

Hands up if you know the guy in New York mentioned at the start of this speech...

If you want to know about gold and silver, Eric Sprott should be one of your first ports of call. Sprott has forgotten more about the metals than most will ever know.

Here he talks to Eric King about the physical shortage in silver, China’s switch from exporter to importer and the chance of gold hitting $2,000, bailouts, debt & deleveraging and the mining shares.

As always, Eric gives great interview.

John Taylor of FX Concepts lays out his thoughts on the Euro, the dollar, the Turkish Lira, interest rates and a whole bunch of other ‘stuff’ including the potential budget cuts.

Taylor has $8 billion under management in currencies so I’d say he’s worth listening to...
and finally…

Hmmm…