

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

A walk around the fringes of finance

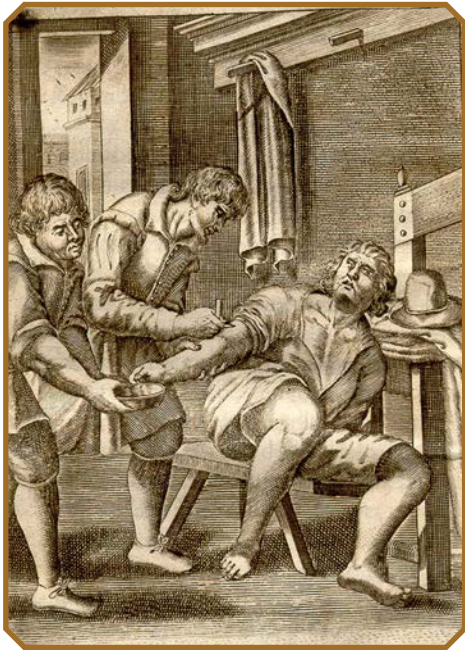


“The art of medicine consists of amusing the patient while nature cures the disease”

– VOLTAIRE

“ An ounce of prevention is worth a pound of cure”

– Benjamin Franklin



## Primum non nocere. First do no harm

Many readers will be acquainted with what is purported to be the central pillar of the Hippocratic Oath, although, in fact, the wording of the Hippocratic Oath translates to:

*"I will prescribe regimens for the good of my patients according to my ability and my judgment and never do harm to anyone."*

The point is, that even back in the late 5th century BC, when Hippocrates was practicing and medicine was a completely new science, the first and most important course of action was, potentially, inaction.

Interfering with, or treating a patient unnecessarily was seen as a cardinal sin and was something to be avoided at all costs.

For almost 2,000 years, however, the practice of bloodletting was the most commonplace treatment amongst doctors who believed bodily fluids to be 'humors' whose equilibrium was central to good health. Once Galen (the Greek physician and NOT Roddy McDowell's character

in Planet of the Apes) discovered that the veins and arteries of the human body were filled with blood and not air as many believed at the time, it quickly became common practice for physicians of the day to 'bleed' their patients back to health by removing an amount of blood which was dependent upon the patient's age and constitution, but also extraneous factors such as the weather, the season and even the patient's locality. Ironically enough, the more serious the disease, the more blood was let. Fevers in particular were treated with substantial bloodletting.

In the second half of the 2,000-year age of bloodletting, there was a curious shift as, instead of physicians, it became the day-to-day business of barbers to perform the process. In fact, the traditional red and white barber's pole harkens back to these times with the red representing the blood, the white signifying the tourniquet and the pole itself representing the stick that the patient squeezed to dilate their veins.

Throughout the ages, many instruments were used to perform bloodletting, including the good old-fashioned leech, but, despite the technique being used to treat virtually every ailment and disease from acne to tuberculosis (George Washington had 1.7 litres of blood let before he died of a throat infection in 1799), it was eventually concluded that, not only was bloodletting not effective, it was actually harmful to the patient. Go figure.

## When the stockmarket

suffered an attack of the vapours around the turn of the century, Doctor Alan Greenspan was called to diagnose and attend to the ailing patient. After a cursory examination, the good Doctor's prescribed treatment was an extended course of low interest rates applied directly to the infected area. This produced immediate results and stimulated the patient very nicely. Unfortunately, rather than bringing the patient gently back to good health, the medicine went coursing through the bloodstream and ended up making things eminently worse.

As it turned out, the complications weren't immediately apparent to the layman observer and in fact, many who watched over the patient with largely untrained eyes were overjoyed at both the speed of the recovery and the fact that the patient was showing signs of new-found strength in places that had hitherto been somewhat moribund.

Over at the local TV station, CNBC, friends of the patient cheered on the recovery in real-time and, to preserve their excitement for posterity, it was decided to attempt a world record for assembling the greatest collection of half-full glasses under one roof that the world had ever seen.

Shortly hereafter, in 2005, Doctor Greenspan announced that the time had come for him to step down and allow a younger man to take over his rounds and so it was that a young physician from Dillon, South Carolina, Dr. Benjamin Bernanke, who had spent years studying depression, was appointed to continue to monitor the patient's recovery.

Things progressed well for a year or so. The patient grew stronger, the local TV station became syndicated nationally and took to celebrating every milestone in the recovery process by printing a new baseball cap, and, despite the mumblings and grumblings of a few curmudgeonly doctors of the dismal science of economics, everybody agreed that the patient was stronger and healthier than ever and would unquestionably only proceed to become more so as the years ticked by.

In 2006 and 2007 however, something strange began to happen as the patient began to show a few signs of relapsing. Somewhere in the bloodstream, the medicine that had been administered was mutating into something the patient's body would soon reject...

**In 2008, after** the collapse of Lehman Brothers, the world caught a fever the likes of which it hadn't done in 70-odd years. Instantly, the Central Bank physicians of the world began their own treatment - a form of reverse bloodletting - as they pumped the veins of the global economy full of liquid stimulus in an attempt to cure its ills.

Hundreds of billions of dollars went coursing through the system in the form of bailout after bailout as these modern-day quacks experimented with a new idea that they figured, in their collective wisdom, would bring down the fever and enable the patient to be sent home with a clean bill of health.

Dr. Bernanke and his panel of revered surgeons (Drs. Paulson, Trichet, Darling and a young, fresh-faced intern named Timothy Geithner) assured the public that the fever was contained, the virus was, in fact, not contagious and that the patient would soon be on the mend once again.

What seems to have been overlooked, is that the root cause of this particular fever was, in fact, quite obvious to even the most casual of observers. The world was suffering from a nasty case of debt, pure and simple. The actions of the Central Bank physicians violated the very basic rule of medicine:

First do no harm.

**We will never** know what would have transpired had the mad dash to stimulate the economy not happened. All we are left with are the dire warnings of some of the finest minds in world finance at the time - and a president who demonstrated his acute grasp of the inner workings of the financial system when, in a moment of clarity, he said:

*"If money isn't loosened up, this sucker could go down."*

As we can't perform a post-mortem on an economy that was allowed to repair its own health, all we can do is to try and ascertain what harm, if any, the 'physicians' did.

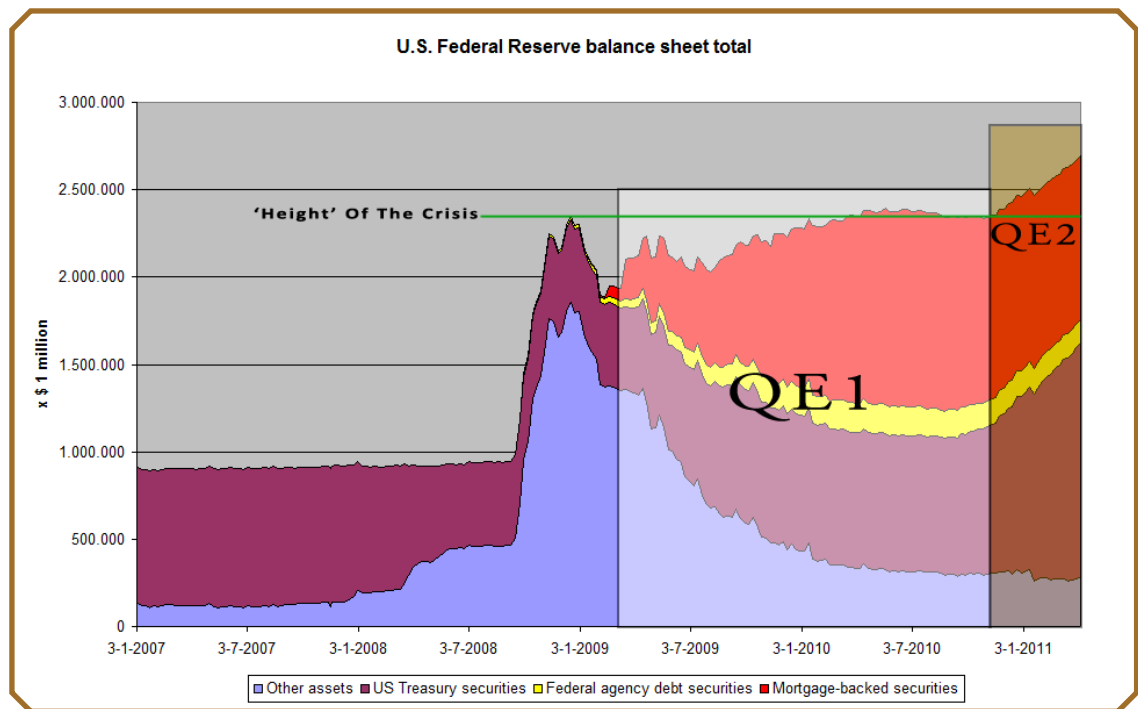
Let's begin with the balance sheet of the Federal Reserve.

The moment the crash cart entered the emergency room, the Fed's balance sheet ballooned as cash was handed out to pretty much anyone and everyone that needed it (including, as it turns out, Wall

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

Street wives, foreign banks and a list of 70 financial institutions who were so close to the edge, they had to tap the Fed's window for \$1000).

As you can see from the chart below, the surge was both instant and enormous as the emergency loans to banks and additional liquidity supplied to the markets doubled the Fed's balance sheet almost overnight.



[CLICK TO ENLARGE](#)

SOURCE: FRB/WIKIPEDIA

Gradually, over the last couple of years, much has been made of the repayments made to the government by many of the companies who were on the receiving end of federal largesse back in 2008:

December 24, 2009:


*Today, the U.S. Department of the Treasury received repayments on its Troubled Asset Relief Program (TARP) investments in Wells Fargo and Citigroup in the sum of \$45 billion, bringing the total amount of repaid TARP funds to \$164 billion.*

June 12, 2010:

*The Treasury Department on Friday hailed what it called a milestone in the history of the controversial \$700-billion bailout fund: For the first time, the amount repaid by banks and other recipients has surpassed the outstanding balance.*

March 30, 2011:

*The U.S. Treasury's bank bailout program will move into a profit for the first time on Wednesday with the expected repayment of \$7.4 billion in taxpayer funds, Treasury officials said.*

These repayments are illustrated by the fall back to more normal levels of the  section of the graph.

Unfortunately, the little matter of Quantitative Easing or, as lesser intellects outside Central Bank circles have been incorrectly heard to refer to it, 'Printing Money', has muddled the waters. The chart shows how QE (and QE2) have taken the place of the emergency loans and, in fact, increased the Fed's balance sheet so one form of imprudent lending, in the form of poorly-collateralized loans to troubled institutions, has been replaced by another; the outright purchase of assets of questionable value in the shape of MBS as well as items the lender has itself produced from thin air.

As treatments go, you have to admit it is quite revolutionary. There are a few events in history that one can't help but look back on and wonder what WERE they doing when they discovered that; how to get milk from a cow is one of them, the first doctor who attached a leech to a patient is another ("you want to put that thing WHERE?".... WHY???). What the Fed has done in the past 36 months (yes folks, the time passed since the collapse of Lehman Brothers can still be measured in months), is not entirely a new idea - large gobs of money have been thrown at problems for centuries - but they have done it on a scale that has never been tried before based purely, it would appear, on the studies of Dr. Bernanke into the effects of Depression.

So how about the side-effects of the treatment?

Well, we can demonstrate a few of them graphically (which serves the dual-purpose of providing clarity and, I'm sure you'll be delighted to hear, brevity). First, gold & silver:

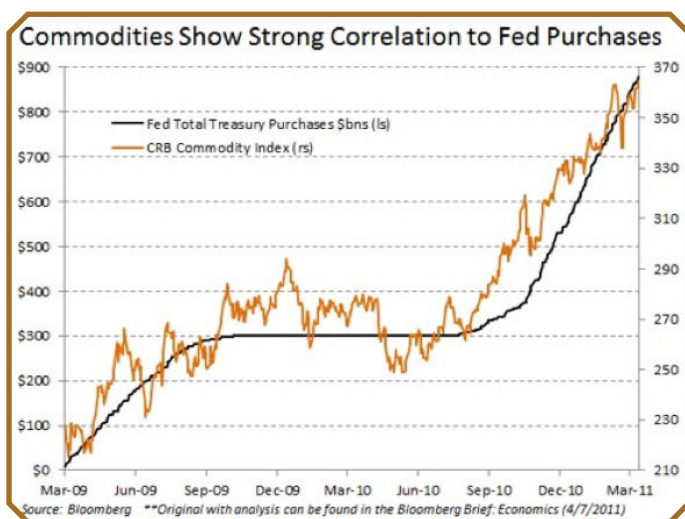


SOURCE: STOCKCHARTS

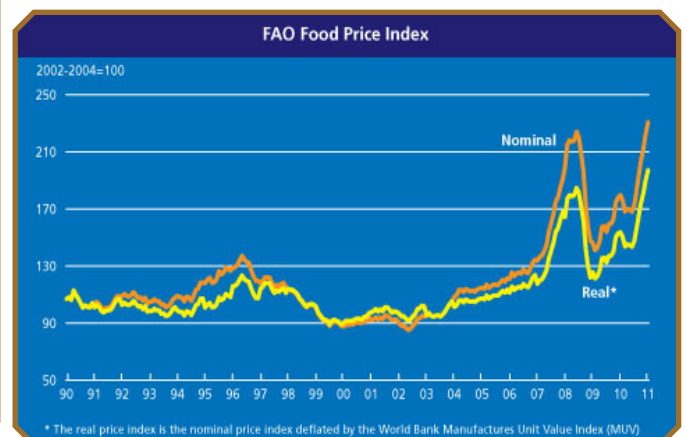


SOURCE: STOCKCHARTS

Next, a chart from a recent Things That Make You Go Hmmm..... [left] that shows the rise of commodity prices alongside Fed purchases and [below] a chart from the World Bank that shows food prices:



SOURCE: MINYANVILLE



CLICK TO ENLARGE

SOURCE: WORLD BANK



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



SOURCE: STOCKCHARTS

If those graphic representations of the possible side-effects of the current treatment being applied to the patient don't get you thinking, let's just take a quick look at a few recent headlines from the world's press:

*"Record food prices could trigger riots, protectionism"* - Vancouver Sun

*"Warning Of 'Food Price Riots In The UK'"* - Sky News

*"Food Prices, Riots, And Starvation"* - BBC News

*"Food prices to skyrocket, riots could follow, suggests USDA"* - Natural News

Interestingly, these headlines are warning of food price riots in places such as the UK and the USA - not the parts of the world where they are already happening. I've said it before and I'll say it again: Hungry people are angry people. Angry people want change and they don't care how they get it.

**So, to recap,** we have a patient who is far from out of the woods in terms of their recovery from a serious fever, we have a treatment that was hastily applied which is now starting to show some fairly dramatic side effects in the form of rising prices just about everywhere, and we have a group of Doctors who continue to hold fast to their convictions about the miraculous effects their cure will, in the fullness of time, produce.

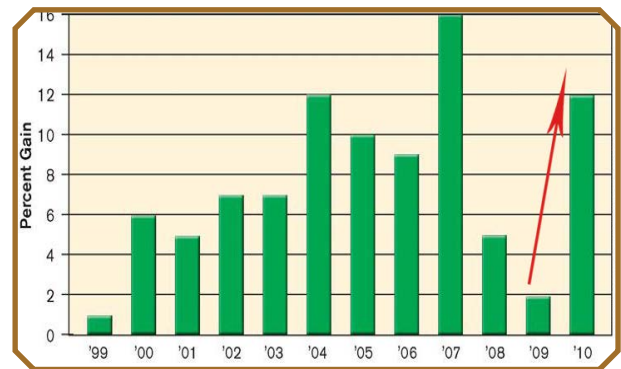
The side-effects shouldn't be a surprise to anybody really - it's just about the most basic tenet of economics - and yet, soothed by the physicians' words, the general public (as well as an alarmingly broad swathe of the investment community) seem to believe that not only will the patient make a full recovery based upon this never-before-tried treatment, but that somehow those side effects caused by the treatment will eventually cure themselves through continued application.

As beliefs go, it's an interesting one - akin to bloodletting, really, which was eventually proven to not only be of little help to patients, but in fact, quite harmful in the long run.

## Primum non nocere

Thirdly, a look at the price of oil - another item that is priced (at least for the time being) in Federal Reserve Notes [chart, left]:

Finally, let's look at the price of agricultural land in America's Midwest heartland, Iowa, Illinois, Michigan and Wisconsin [below]:



CLICK TO ENLARGE

SOURCE: FRB CHICAGO

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17 April 2011

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## The Gonnies, Gonnies Banks

#	Bank	Assets (\$m)	Deposits (\$m)	Cost (\$m)
29	Bartow County Bank, Cartersville, GA	330.2	304.1	69.5
30	New Horizons Bank, East Ellijay, GA	110.7	106.1	30.9
31	Nexitty Bank, Birmingham, AL	793.7	637.8	175.4
32	Superior Bank, Birmingham, AL	3000.0	2700.0	259.6
33	Rosemount National Bank, Rosemount, MN	37.6	36.6	3.6
34	Heritage Banking Group, Carthage, MI	224.0	196.2	49.1
<b>Total Cost to FDIC Deposit Insurance Fund</b>				<b>588.1</b>

**The high price** of produce, especially for tomatoes after the deep winter freezes, has attracted more than heightened attention from consumers. A ring of sophisticated vegetable bandits was watching, too.

Late last month, a gang of thieves stole six tractor-trailer loads of tomatoes and a truck full of cucumbers from Florida growers. They also stole a truckload of frozen meat. The total value of the illegal haul: about \$300,000.

The thieves disappeared with the shipments just after the price of Florida tomatoes skyrocketed after freezes that badly damaged crops in Mexico.

That suddenly made Florida tomatoes a tempting target, on a par with flat-screen TVs or designer jeans, but with a big difference: tomatoes are perishable.

“I’ve never experienced people targeting produce loads before,” said Shaun Leiker, an assistant manager at Allen Lund, a trucking broker in Oviedo, Fla., that was hit three times by the thieves. “It’s a little different than selling TVs off the back of your truck.”

Industry and insurance company officials said it appeared to add a new wrinkle to a nationwide surge in cargo theft.

In the case of the stolen tomatoes, the thieves seemed deeply versed in the ways of trucking companies and the produce industry. Transportation company executives and a law enforcement official said the criminals appeared to have set up a bogus trucking company with the intention of stealing loads of produce and other goods.

The company, based in Miami, was called E&A Transport Express, according to Master Cpl. David M. Vincent of the Florida Highway Patrol’s cargo theft task force.

The company registered with the Federal Motor Carrier Safety Administration in late February, according to the agency’s online database. That was right around the time produce prices were soaring.

“They were just sitting and waiting, watching the produce because they knew it was climbing,” said Clifford Holland, the owner of the transportation brokerage firm Old North State, which was a victim of the gang. “It was like a snake in the grass and they struck.”

★ ★ ★ NYT (VIA KEVIN) / [LINK](#)

**Rising food and** petrol prices pushed the US cost of living to its largest year-on-year gain in 15 months, official figures showed on Friday.

The US Labor Department said that consumer prices climbed a higher-than-expected 2.7pc in March from a year before.

Almost three quarters of the rise was due to surging food and petrol prices, with petrol costs climbing 5.6pc, the ninth straight month of increases. Food rose 0.8pc in March, the largest gain since July 2008.

A survey of 41 economists by Bloomberg had on average expected annual inflation to hit 2.6pc.

David Wyss, the New York-based chief economist at Standard & Poors, said the inflation was largely as expected, adding: “The Fed is not going to see inflation as a threat so they have the freedom to keep interest rates low longer. But core inflation is creeping up from its lows six months ago, so the Fed is



going to end its extraordinary measures. There will be no QE3 [a third round of quantitative easing].”

The consumer price index’s monthly rise was 0.5pc, in line with economists’ expectations, the ninth consecutive increase. Core prices – those used by the Federal Reserve to gear policy, and excluding food and fuel costs – rose just 0.1pc, less than had been forecast.

The announcement came after data showed that inflation in China had jumped to a 32-month high, with food prices also proving a major driver for the US’s second-biggest trade partner, climbing 11.7pc in the year to March.

Eurozone inflation has hit 2.7pc and is above 3pc once Britain and the rest of the EU are included, raising expectations of sharper interest rates rises. Eurostat, the European statistics office, attributed the biggest upward pressure to fuel prices.

The sets of data were released amid burgeoning criticism of the Federal Reserve’s stimulus programme both at home and abroad for driving global prices higher.

The president of the Federal Bank of Richmond said on Thursday that the “quantitative easing” programme should be curbed to prevent prices rising too much, and Russian finance minister Alexei Kudrin said on April 5 that it fuels inflation in emerging markets.

★ ★ ★ UK DAILY TELEGRAPH / [LINK](#)

**Missouri state Senator** Jim Lembke had enough of what he calls Washington’s runaway spending. So he and three fellow Republicans in the state with an unemployment rate of 9.4 percent blocked \$105 million in federal aid for those out of work.

“It’s not free money -- it’s borrowed money from China,” he said in interview. “We’ve got to send a message to Washington: Stop the spending, stop the madness.”

In the nation’s capitals, from Trenton, New Jersey, to Phoenix, Arizona, tax-leery businesses and the Republican politics of fiscal restraint are making unemployment benefits the next program to face cuts because of the fiscal turmoil that’s persisted since the recession ended almost two years ago.

...“It’s not free money  
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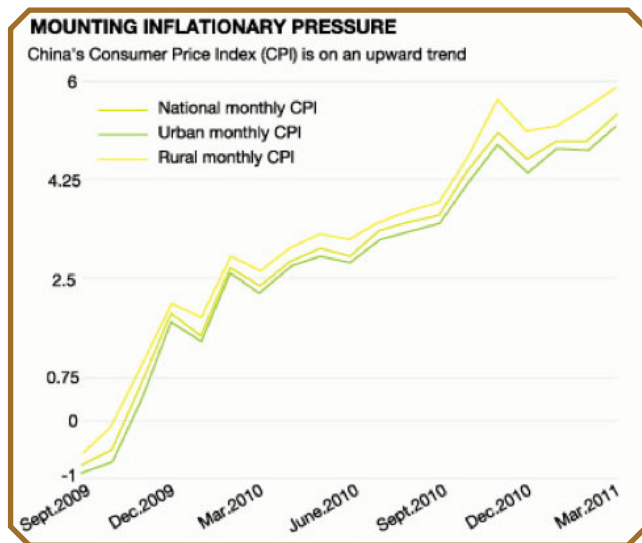
States slashed spending and raised taxes during the past three years to eliminate deficits in their general budgets. Now, more than half have run out of cash in their unemployment trust funds after joblessness, now 8.8 percent, peaked at 10.1 percent in October 2009. They have borrowed more than \$48 billion from the federal treasury to pay benefits.

Groups as varied as local Chambers of Commerce to the National Employment Law Project, which works on behalf of the poor, have raised concerns about the escalating payroll taxes that will be needed to escape debt and replenish state funds.

Through 2015, employers face as much as \$24 billion in automatic tax increases triggered in states indebted to the U.S. government, according to a study by the National Employment Law Project and the Center on Budget and Policy Priorities, two groups who advocate against budget cuts that hurt the poor.

“We’ve got a massive debt that the employers have to pay back, just like many other states out there,” said Daniel Mehan, the chief executive officer of the Missouri Chamber of Commerce and Industry in Jefferson City, the capital. “It’s staring us in the face.”

★ ★ ★ BLOOMBERG / [LINK](#)



SOURCE: CAIXIN

**China's consumer price** index (CPI) increased 5.4 percent in March from the same period last year, exceeding market expectations.

According to the National Bureau of Statistics (NBS) on April 15, March CPI touched a 31-month high since the financial crisis, raising market expectations of more rate hikes in the second quarter. For the first three months, CPI increased 5 percent year-on-year, boosted by the rising food costs. Food price growth increased 11 percent year-on-year.

The producer price index (PPI) rose 7.3 percent year-on-year in March while it rose 7.1 percent year-on-year during the first quarter.

The NBS also released on the same day that China's first quarter GDP totaled 9.63 trillion yuan, up 9.7 percent year-on-year, or 2.1 percent up from the previous quarter.

Sheng Laiyun, spokesman of the NBS, said the inflation is still under control. "March CPI is 0.2 percent lower from February, sending a positive signal on the effect of the government's price control policies," said Sheng.

Sheng said that China's domestic economy has retained a strong growth momentum with active local investment and steady consumption growth. Despite the registering of a trade deficit in the first quarter, Sheng said both China's imports and exports will continue to grow rapidly amid a global economic recovery.

★ ★ ★ CAIXIN / [LINK](#)

**The International Monetary** Fund believes Greece's debt is unsustainable and has told European government and central bank officials that Athens should consider restructuring by next year, three people familiar with the situation said Saturday.

"The IMF believes the debt situation in Greece is unsustainable," one of those people, who has direct knowledge of the matter, told Dow Jones Newswires. "Senior (IMF) officials have told the parties involved that restructuring should be considered soon," including the European Commission and euro-zone governments.

IMF spokesman William Murray denied the IMF was recommending a restructuring of all Greek debt including that held by private holders, but the IMF has said the fund has considered extending the loan repayment schedule for Athens, a form of restructuring.

"So far we're working with the program as it has been established," IMF Managing Director Dominique Strauss-Kahn said, speaking at a press briefing at the close of spring meetings here.

"For this program to work, we need two things: we need the country to do exactly as we said in the program, even if it's difficult," Mr. Strauss-Kahn said of Greece. "We also need our partners, namely the Europeans, to also do their homework in terms of crisis management."

Greece Finance Minister George Papaconstantinou said Greece isn't looking to restructure its debt. "The pain and cost of restructuring would be bigger than the benefits," he said at the spring meetings

of the IMF. “Restructuring is not the position of the Greek government.”

A second official familiar with the situation said a number of senior euro-zone officials, including finance ministers, have told the European Central Bank that they believe a restructuring of Greek debt will be necessary, but the response was that “such issues should not be discussed in the open.”

“The ECB is flatly against any form of restructuring because of contagion fears. France is also against it,” the second official said.

The first official said the IMF believes Greek bond maturities must be “substantially extended as a minimum first step.” Reducing the principal that Athens must pay to its creditors may also have to be explored, the official said.

The IMF will most likely extend the repayment period of the around EUR30 billion it gave to Greece from three to seven years to align with the extension granted by the euro zone last month, the second official said.

☆☆☆ WSJ / [LINK](#)



[CLICK TO ENLARGE](#)

*“This is how it happens, on a smaller scale.*

*I was in Moscow in the 1990’s when they were starting to flee the Russian rouble for gold, diamonds, US dollars, and vodka. It is hard to imagine what it feels like to watch your life savings simply and relentlessly evaporate away. It was a ‘quiet panic’ that left a very deep impression on me.*

*Apparently the US dollar is no longer so much a safe haven in that part of the world. At least that is what I hear.*

*Belarus is small. When a bigger ship starts to founder, the lifeboats may be very crowded.*

*It cannot happen. The authorities will not allow it. This is what they always say.*

*In some ways it is already happening.*

*The Feds are already rationing and throttling gold and silver sales by throwing paper and propaganda at the demand.*

*I wonder how much of it has been secretly siphoned away by insiders already. The time to buy income producing fixed assets is when there is ‘blood flowing in the streets,’ but the time to get safe and independently liquid is before that blood starts to flow.*

*Big things are happening, little brother.”*

- Jesse

**Belarus’ central bank** has stopped selling gold to local retail customers for Belarussian roubles it said on Friday, after demand for precious metals soared due to expectations of a currency devaluation.

The bank did not explain its decision.

Belarus is in talks with Russia on a \$3 billion bailout package that Minsk hopes will help it avoid a painful devaluation of the rouble and offset the large current account deficit.

Belarussians bought 470 kilograms of gold from the central bank last month, up from 209 kilograms in January and February together, as they sought to protect their savings.

Analysts say that Belarus will have to eventually devalue the rouble by about 20-30 percent even if it receives aid from Moscow. However, the central bank has said it would not make any such moves until late April.

★ ★ ★ [REUTERS](#) / [LINK](#)

**The number of** Spaniards out of work could reach a record high of 5 million if the active workforce continues to rise, Labour Minister Valeriano Gomez said in an interview published on Saturday in Expansion.

Spanish unemployment is more than double the European Union average at 20.3 percent and has risen by around 2.5 million to 4.7 million since the beginning of the economic crisis in the first quarter of 2008.

"Whether or not we rise above the 5 million level really depends on the active workforce," Gomez told Expansion.

Immigration during the boom years has helped inflate the work force by almost 3 million since 2005 and, while the number of people looking for a job has fallen slightly since the collapse of the property sector, it remains too high, Gomez said.

The government has said it expects the near-paralyzed economy to begin creating net jobs by the second half of 2011. Official forecasts see a slow fall in the unemployment rate to 16 percent by 2014 from 19.8 percent this year.

Spain's economic woes and the government's handling of one of the largest public deficits in the euro zone has been under intense scrutiny by international investors concerned the bloc's fourth largest economy could be forced to seek EU/IMF aid.

A slew of austerity measures and structural reforms, including of the labour market, have helped calm investor nerves, but doubts over the depth of the housing industry crash continue to fuel uncertainty.

★ ★ ★ [FOREXYARD](#) / [LINK](#)

**Nouriel Roubini, the** economist who predicted the global financial crisis, said restructuring of Greek state debt is only a matter of time, while Spain may soon follow Ireland and Portugal in seeking financial assistance.

"When Greece failed, they said Portugal is different," Roubini said. "Now they say Spain is different. I am not sure Spain is different."

"The issue of Greece is not whether there will be debt restructuring, but when it will be done, and whether it will be an orderly market-oriented debt exchange or disorderly like in Argentina," Roubini said today at a conference in Almaty, Kazakhstan's financial center. "One can make the same argument for Portugal's government and Irish banks."

Greece said today it will implement 26 billion euros (\$37.6 billion) of new austerity measures and 50 billion euros in state-asset sales through 2015 to meet goals to reduce the budget deficit and public debt.

The government came close to defaulting on its debt last year, requiring a 110 billion-euro bailout from the European Union and International Monetary Fund, after it emerged that the country had underreported the size of a budget deficit that reached 15.4 percent of gross domestic product in 2009.

"Greece's problems won't be solved by restructuring its debt but by restructuring the country," Prime Minister George Papandreou said at a Cabinet meeting today in Athens in comments broadcast live by state-run Net TV.

The government is trying to reduce the deficit to less than the European Union limit of 3 percent of GDP by 2014, compared with a targeted shortfall of 7.4 percent this year.

Greece's public debt is set to surge to 150 percent of GDP in two years after the planned fiscal adjustment, reaching the "level of insolvency," Roubini said.

Roubini, 53, a professor at New York University's Stern School of Business, predicted in July 2006 a "catastrophic" global financial meltdown that central bankers would be unable to prevent.

In October 2008 Roubini said he still saw "significant downside risks to equity markets," failing to predict the stock market rebound that sent shares soaring around the globe last year. The Standard & Poor's 500 Index has gained 92 percent from its low in March 2009.

EU Economic and Monetary Affairs Commissioner Olli Rehn said yesterday a debt restructuring in the euro area would cause a "chain reaction" in the banking industry and ruled out such an operation for Greece...

"When Greece failed, they said Portugal is different," Roubini said. "Now they say Spain is different. I am not sure Spain is different."

★ ★ ★ BLOOMBERG / [LINK](#)

**Last year the** Icelandic voters turned out the old government and rejected backing their bank debt, which was mostly to Britain and the Netherlands. The new government then renegotiated the terms of the debt. They lowered the interest costs to 3.2% spread out over 30 years, and no payment until 2016. Not bad terms if you can get them. The debt was incurred when Britain and the Netherlands compensated their nationals who lost savings in online "Icesave" accounts owned by Landsbanki, one of three Icelandic banks that collapsed in late 2008.

The Eurasia Review noted:

**...The True Finns note that no one rushed to their aid when they had their own crisis in the '90s. The country has since gone on the "straight and narrow."**

*"Attempts by creditors to persuade nations to bail out their banks at public expense thus is ultimately an exercise in public relations. Icelanders have seen how successful Argentina has been since it imposed a crew haircut on its creditors. They also have seen the economic and political disruption in Ireland and Greece resulting from trying to pay beyond their means.*

*"Creditors did not give accurate advice when they told Ireland that it could pay for its bank failures without plunging the economy into depression. Ireland's experience stands as a warning to other countries about trusting overly optimistic forecasts by central bankers. In Iceland's case, in November 2008 the IMF staff projected yearend-2009 gross external public and private debt at 160% of GDP – but observed that an exchange rate depreciation of 30% would push the ratio to 240% of GDP, which would be 'clearly unsustainable.' But the most recent IMF staff report (January 14, 2011) shows end-2009 gross external debt at 308% of GDP, and estimates end-2010 gross external debt*



*at 333% – even before taking the Icesave and other debts into account!”*

*Basically, the voters of Iceland were being asked to take on a huge debt based on foreign currencies over which they have no control. Voting no meant that acceptance into the euro club would not be likely (though that is not a club you might wish to join today!) There are other threatened measures. But absent the British or Dutch sending in troops, there is not much you can do to force that debt collection. Iceland’s voters sent the referendum a resounding 60% no vote.*

Now let’s fast forward to Sunday and the elections in Finland. Yes, Finland, that bastion of euro correctness.

It turns out that some of the nation’s voters don’t see why they should “donate” to a fund that will bail out Greece, Ireland, and Portugal (for openers – forget about Spain!). There is a party, called (in translation) the True Finns party. It is a very nationalistic party and generally does not get more than 4% of the vote. But recent polls show their level of support has more than tripled and is approaching that of the three biggest parties: Center, National Coalition, and Social Democrats, which each have about 20 percent. It is very possible that the True Finns could get a sizeable vote. If the polls are right.

Why? Because they are the only way Finnish voters can say no to using their money to bail out other countries. Some 60% of 2,400 respondents in an April 8 survey by Think If Laboratories said they opposed bailouts, while 31 percent approved. The margin of error was 3 percentage points. (Canadian Press)

The True Finns note that no one rushed to their aid when they had their own crisis in the ’90s. The country has since gone on the “straight and narrow.”

60%! Wow! The True Finns have made it clear they will not go into coalition with any government that votes for more bailout funds. Think that same sentiment is not rising in Germany? Most people are concerned about the debtor nations rejecting the terms of the deal. Finland may show us on Sunday that the no vote works both ways!

★ ★ ★ JOHN MAULDIN / [LINK](#)

**Imagine that, instead** of recycling US Treasuries, China really put its enormous foreign currency reserves to work. What does \$3,045bn buy you these days?

Italy. Principal and interest on the entire sovereign debt stock of il bel paese, going out to 2062, comes to \$3,031bn. Or if China were after commodities, rather than countries, it could stash away 25bn barrels of Brent crude. Based on February’s consumption, that would satisfy almost 13 years of net oil imports. And how about companies? Assuming a civil 30 per cent takeover premium, Beijing could buy up America’s ten biggest listed firms, from ExxonMobil to JPMorgan, or the 15 biggest Euro-stocks, from BHP Billiton to Eni. For true value for money, though, China might want to browse a little closer to home. Its reserves managers could acquire the entire Nikkei 225, with \$30bn in change.

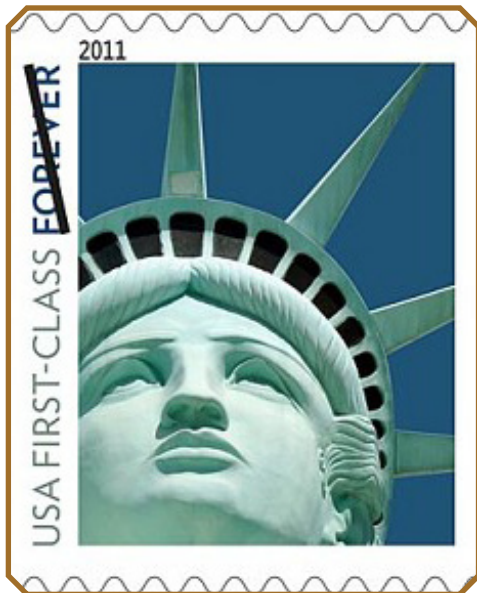
★ ★ ★ FT / [LINK](#)

**Her face, which** has welcomed newcomers to the United States for 125 years, is unmistakable. Yet the US postal service has managed to confuse the Statue of Liberty with an impostor.

A new stamp that was meant to depict Lady Liberty in fact features a 1997 replica from outside a New York-themed casino in Las Vegas, it has emerged.

Three billion of the 44-cent (27p) stamps, which show a close-up of the New York, New York hotel’s





half-sized model, were printed before a collector spotted the error and contacted the weekly stamp news magazine 'Linn's Stamp News'.

"The image is accurate," said Roy Betts, a spokesman for the US postal service. "Just of the Vegas version, not the one in New York". The mistake is thought to be the first of its kind.

A close inspection of the face on the "forever" stamp – which can be used for first-class post indefinitely, regardless of price rises – reveals several differences with the real statue's features.

Furthermore, where the famous windows in Liberty's crown should be, the Vegas replica has only crudely painted black blocks.

Mr Betts said the picture was obtained from an agency. "But we love the stamp and would have chosen this photograph anyway," he said. No stamps will be withdrawn and it is possible more will be produced.

★ ★ ★ UK DAILY TELEGRAPH / [LINK](#)

**How could silver** be manipulated downward, seeing how it has doubled in five years (and quintupled in ten years)? This would be considered to be a fair question on the surface, if price were the only criterion for manipulation. In fact, if you told me ten years ago, when silver was hovering at \$4 the ounce, that we would exceed \$20 within the decade, I would have concluded that the silver manipulation would have been terminated. I would have assumed the COMEX short position was no longer excessively concentrated and conformed to all other commodities. But that's not the case. What this proves is that price is not the cause of a manipulation, it is the result. Price is like a thermometer; it may register heat, but it doesn't cause it. Price is related to manipulation, of course, but within strict terms. The cause of a manipulation is the activities of one large trader or a small group of traders. It does not matter what prices were five or ten years ago.

If manipulation can't be proved by price alone, then what can it be proved by? Manipulation can be proved by concentration. You can't have a manipulation without a concentration. Every manipulation case in CFTC history revolves around concentration. No market has been more concentrated than COMEX silver on the short side. Concentration is defined by an inordinately large percentage of the market being held by one or a few related trading entities. That's why the CFTC's front-line defense against manipulation is by monitoring concentration levels among large traders. It does so because it knows that manipulation and concentration go hand in hand.

When the skeptics are confronted with the facts of concentration on the short side of silver, they react in a predictable number of ways. They either try to change the topic, claim the CFTC must be aware of this and are not moving against the concentration for good reasons, or launch personal attacks or innuendoes on those bearing the message. Neither the skeptics, nor the CFTC, can deny the facts on the silver concentration or that JPMorgan inherited the concentrated short positions in COMEX and OTC silver and gold from Bear Stearns, as these facts come from the CFTC and other government data. All they can do is dance around the issue and pretend the facts are no big deal. Yet they continue to investigate and spend taxpayer money on no big deal. This is wrong.

*\*NB. this article was written several weeks (and several dollars in price) ago*

★ ★ ★ TED BUTLER / [LINK](#)

**For many people,** Deutsche Bank CEO Josef Ackermann is a hero of the German business world. But for one leading economist, at least, the Swiss banker is nothing less than a villain.

In an interview with the left-leaning German daily Die Tageszeitung published Thursday, Simon Johnson, former chief economist of the International Monetary Fund, described Ackermann as “one of the most dangerous bankers in the world.”

Johnson singled out Ackermann’s famous target of a 25 percent pretax return on equity for particular criticism. He said such returns were only possible because Ackermann knows that Deutsche Bank is too big to fail and that it would be “rescued by taxpayers” if it was faced with bankruptcy. Return on equity is calculated by dividing profit by the capital invested.

Johnson, who was chief economist of the IMF from March 2007 to August 2008 and now teaches at MIT, is considered an expert on financial crises. He is the co-author of the popular blog “The Baseline Scenario,” which examines the causes of the 2008 crisis and its aftermath.

...Simon Johnson, former chief economist of the International Monetary Fund, described Ackermann as “one of the most dangerous bankers in the world.”

In Johnson’s view, there is the danger of a new crisis occurring if the capital rules for banks are not made significantly tighter. He told the newspaper that the new Basel III rules -- which will require banks to hold top-quality capital equal to at least 4.5 percent of assets by 2015, rising to 7 percent by 2019 -- are “absolutely useless.” Instead, he argues, bank capital reserves have to be equal to between 20 and 45 percent of total assets. Deutsche Bank currently has a capital ratio of just 4 percent, he said.

In the interview, which was published in German, Johnson argued that banking regulators are refraining from introducing stricter rules because they believe that major economies need large banks that should not be regulated too tightly. That amounts to granting banks permission to speculate, he said. He accused banks of taking reckless risks by borrowing huge amounts of money which are not sufficiently backed by capital reserves. The taxpayers effectively secure the loans, Johnson said, describing it as a “classic recipe for a new crisis.”

★ ★ ★ DER SPIEGEL / [LINK](#)

**Brazil, Russia, India,** China and South Africa - the BRICS group of fastest growing economies - Thursday signed an agreement to use their own currencies instead of the predominant US dollar in issuing credit or grants to each other.

The agreement, the first-of-its-kind, was signed at the 3rd BRICS summit here attended by Indian Prime Minister Manmohan Singh, China’s Hu Jintao, Brazil’s Dilma Rousseff, Russia’s Dmitry Medvedev and South Africa’s Jacob Zuma.

“Our designated banks have signed a framework agreement on financial cooperation which envisages grant of credit in local currencies and cooperation in capital markets and other financial services,” Manmohan Singh told reporters at a news conference with other BRICS leaders.

But the agreement is confined to credit and not trade. BRICS economies hold 40 percent of the world’s currency reserves, the majority of which is still in US dollars.

The grouping is significant because it is expected to have a healthy global presence in the future as the member-countries are the fastest growing economies and are projected to contribute 48 percent to the global economy in the next decade.

★ ★ ★ ECONOMIC TIMES / [LINK](#)

As the charts below illustrate, core CPI and core PCE are both well below the Federal Reserve's 2% target, sometimes referenced as a 1.75%-2% range.

The December 2010 core PCE of 0.73% was the lowest ever recorded. The October 2010 0.61% was the lowest core CPI ever recorded. However we've seen some divergence between the headline and core numbers for both indicators, and the latest CPI data for March shows a wider spread between

Core and Headline. If gasoline prices continue to push higher, the spread is likely to widen further in the months ahead.

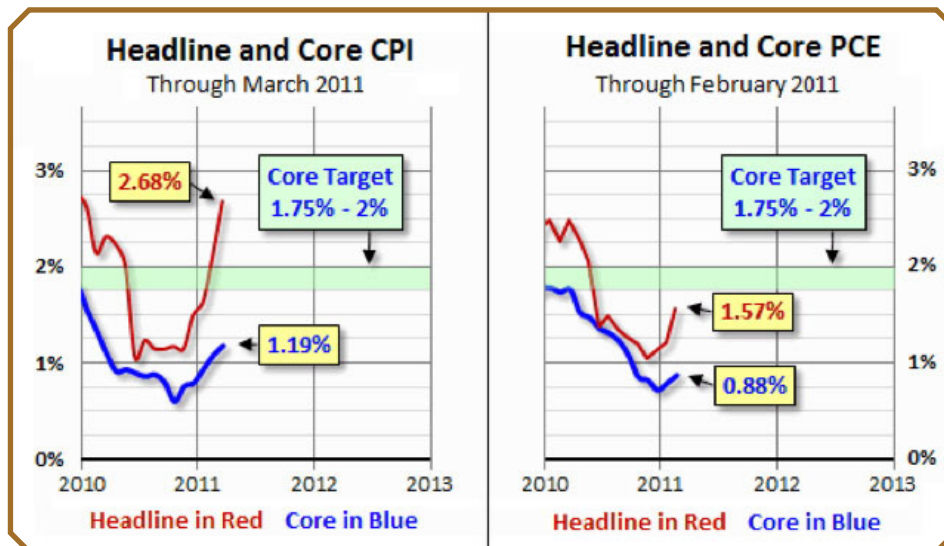
The Bureau of Labor Statistic's Consumer Price Index and The Bureau of Economic Analysis's monthly Personal Income and Outlays report are the main indicators for price trends in the US.

The chart[s] below [are] an overlay of core CPI and core PCE since 2000... [and] a long-term perspective from the actual beginnings of the two series.

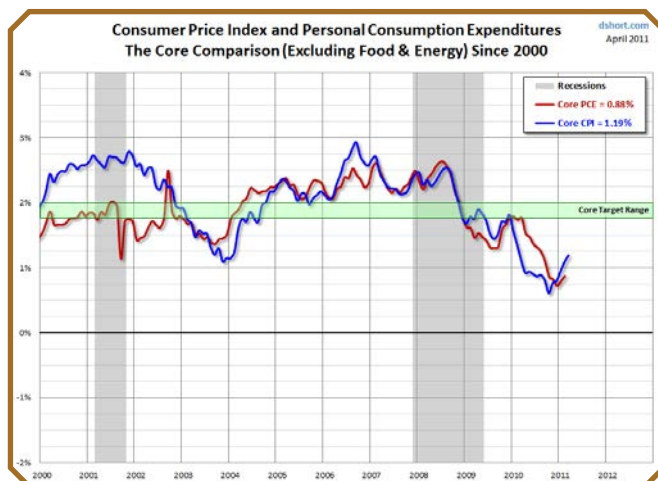
Naturally in the real world, we can't exclude food and energy

from our monthly expenses. But the extreme volatility of these two categories, especially energy costs, often obscures the underlying trend, which is the focus of the chart[s] below].

☆☆☆ DSHORT / LINK

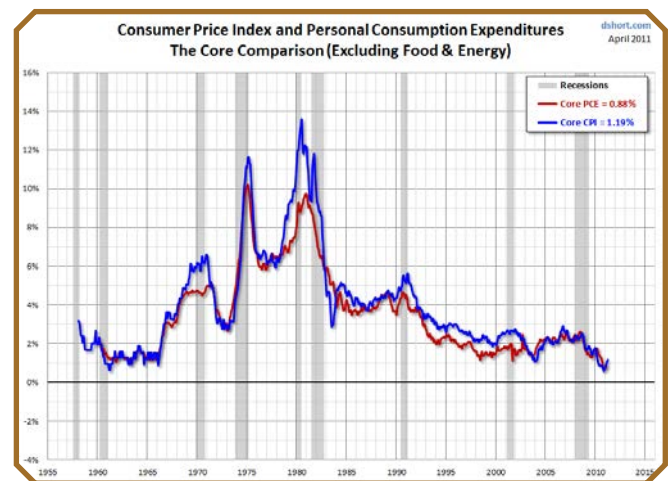


SOURCE: DSHORT



CLICK TO ENLARGE

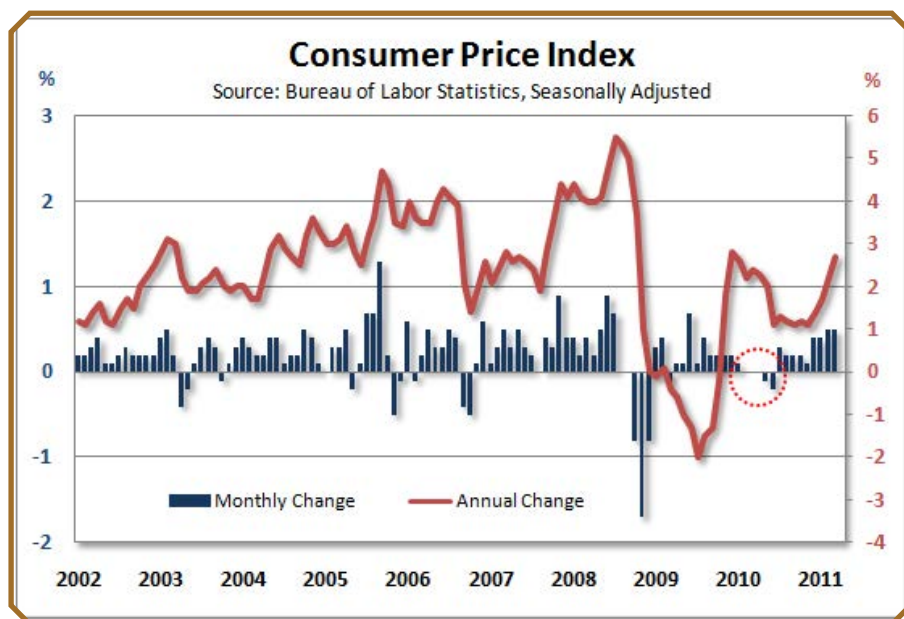
SOURCE: DSHORT



CLICK TO ENLARGE

SOURCE: DSHORT

**The Labor Department** reported that surging energy and food costs drove consumer prices 0.5 percent higher in March, following similar increases during the prior three months, and, on a year-over-year basis, overall inflation is now 2.7 percent, the highest level since December 2009 when the index reached 2.8 percent.



[CLICK TO ENLARGE](#)

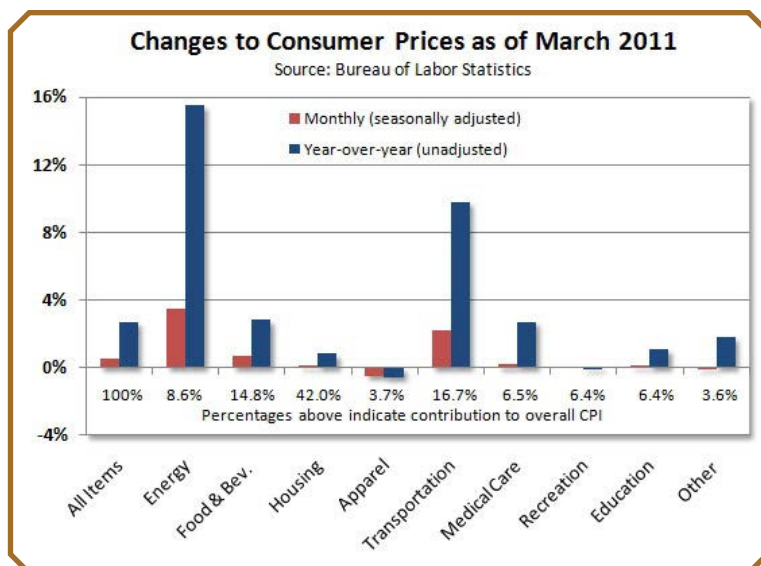
SOURCE: TIM IACONO

Over the last three months, inflation has been running at an annualized rate of 6.0 percent and, going back six months, the rate of inflation has been over 4 percent. Moreover, as indicated in red above, another few months like the last ones will result in replacing price declines in early-2010 with big increases that could push the overall index sharply higher.

Gasoline prices rose 5.6 percent last month and are now up 27.5 percent from a year ago and, given the rising price at the pump in recent weeks, that trend is likely to continue for at least another month. Food prices rose 0.8 in March and are now up 2.9 percent on year-over-year basis, however, prices for "food at home"

are now 3.9 percent higher than last year at this time.

There is good news, however, that is, for those consumers who don't use food and energy, as the "core" rate of inflation rose just 0.1 percent last month and is now up 1.2 percent from a year ago. The Wall Street Journal proclaims "Underlying Inflation Remains Tame" and Federal Reserve officials will no doubt give themselves a well deserved pat on the back for a job well done, the latest data leading to more confidence at the central bank that freakishly low interest rates and money printing on a grand scale are justified.

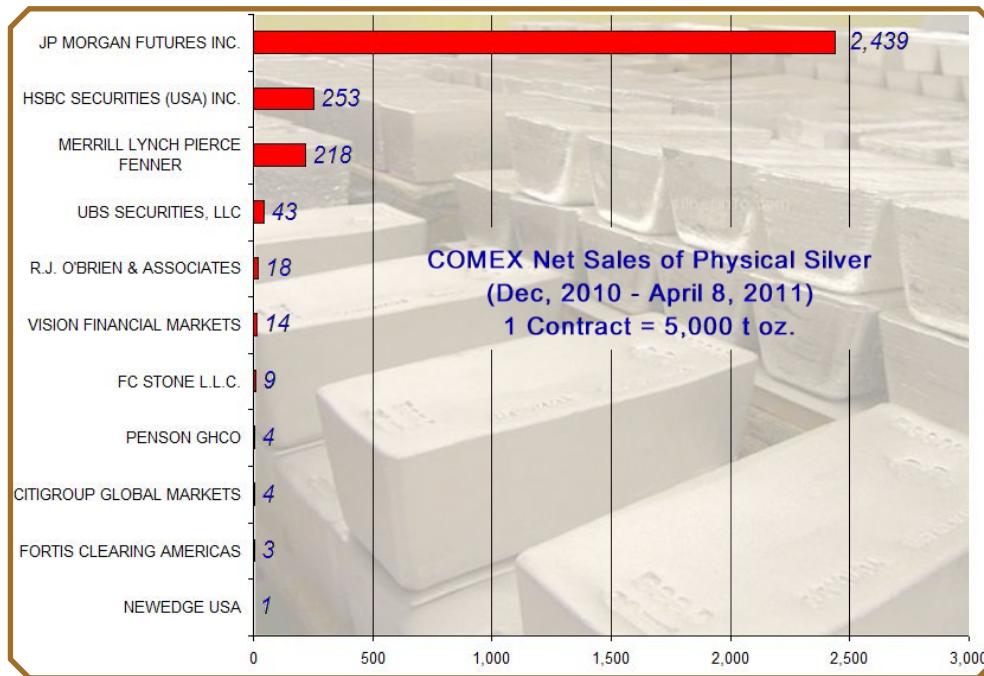


SOURCE: TIM IACONO

☆☆☆ TIM IACONO / [LINK](#)



**Silver is something** most Americans can still afford, but aren't smart enough to buy. Maybe it's because the concept that the supply of anything could be less-than-infinite is rejected here. Or maybe they're afraid someone might laugh and call them a conspiracy theorist. Too bad, because they've already missed out on some really good laughs, with more to come. The latest round of jokes came from the CME group's year to date metals delivery notices report. Since December 2010, only 11 firms have been foolish enough to be net sellers of physical silver at the COMEX. Here they are [chart, left]:



**CLICK TO ENLARGE**

**SOURCE: COMEX/ACROSS THE STREET**

market participants combined. So the idea that JPM is the entity holding down the price of silver is an incontrovertible fact, not a conspiracy theory. It's not even worth discussing.

What is worth discussing is how much longer JPM can continue delivering silver at this blistering pace. JPM's 4-month total would be more than 90% of US mining production for the period. So how JPM acquires its silver should be of interest, and that requires some speculation. The largest silver stockpile in World history is a good place to start. On June 1, 1955 The Wall Street Journal reported that the US government had a "useless" stockpile of about 3 billion ounces of silver, and blasted the Treasury for paying the outrageous price of 90.41 cents for an ounce of silver.

Fun with Math: If you had 3 billion ounces of something on June 1, 1955 and began selling 1 million ounces per week, you'd run out 57.49 years later, on Tuesday November 27, 2012.

The point is that in 1955, the US government was in possession of more than 10 percent of all silver ever discovered up to that point in human history. Fifty years later, it was all gone according to the 2005 US Geological Survey. The price of silver has now risen more than 4,000% despite the complete liquidation of the largest stockpile of the stuff ever known. That's better than stocks, houses, oil and just about everything else you can imagine, with the exception of gold, which was illegal for US citizens to own in 1955.

☆☆☆ [ACROSS THE STREET / LINK](#)



**Michael Burry speaking** at Vanderbilt University on April 5th.

Anyone who has read Michael Lewis' 'The Big Short' will want to watch this.

Anyone who HASN'T read Michael Lewis' 'The Big Short' will want to watch this AND read 'The Big Short'...

**Here is the** first of a Jim Grant Double-Bill.

First, Jim talks to Consuelo Mack about inflation.

As always, Jim is in fine form, but it's interesting to see how even mainstream media are starting to wake up to the inflation problem.

Inflation Creep, it would seem, is not an undiscovered Radiohead B-side...



**...and in the** second of our two visits with Jim, he speaks to Eric King about why he feels the US will resolve the current impasse by returning to a gold standard.

Boy oh boy would THAT be something to see.....

**All told, these** two interviews will cost you a little under an hour of your time. Trust me when I tell you it will be an hour well-spent.



*and finally...*



SOURCE: RUSS WINTER

*Hmmm...*

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COMMENTS

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