"Complacency is a state of mind that exists only in retrospective: it has to be shattered before being ascertained"

– VLADIMIR NABOKOV

"A man's work is in danger of deteriorating when he thinks he has found the one best formula for doing it. If he thinks that, he is likely to feel that all he needs is merely to go on repeating himself . . . so long as a person is searching for better ways of doing his work, he is fairly safe"

– Eugene O'Neill

"When a great team loses through complacency, it will constantly search for new and more intricate explanations to explain away defeat"

– Pat Reilly

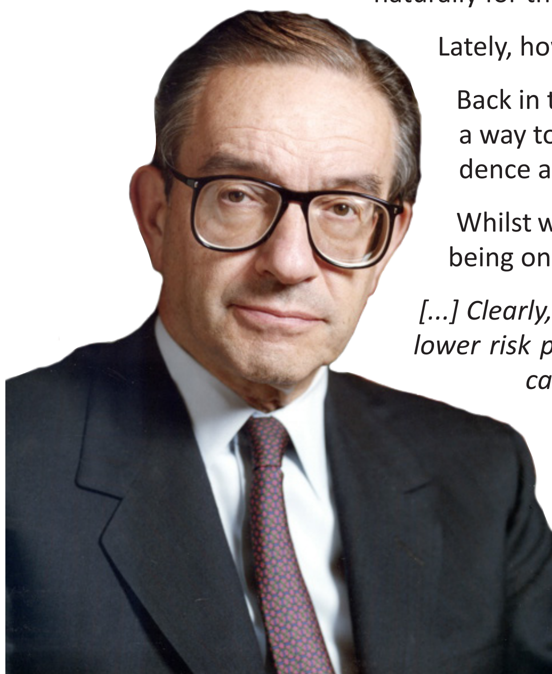
Complacency: com·pla·cen·cy (noun)

1: self-satisfaction especially when accompanied by unawareness of actual dangers or deficiencies

2:a feeling of contented self-satisfaction, especially when unaware of upcoming trouble.

So says both Miriam AND Webster - and they are two people you do NOT want to pick a fight with if you 're talking about definitions.

It seems to me that if there were a futures contract in complacency, it would certainly not be in need of a CME margin hike due to a completely lopsided supply/demand picture. Yes I'm sure there would be all kinds of whack-jobs talking about a conspiracy to sell complacency short and thus flood the world with unbacked self-satisfaction and unawareness, but the simple truth is, complacency occurs naturally for the most part and is in abundance roughly 95% of the time.



Lately, however, a curious phenomenon has taken place.

Back in the dying days of the 20th century, Doctor Alan Greenspan discovered a way to manufacture a super-strain of artificial complacency by adding confidence and using the power of words and the setting of interest rates.

Whilst working in his lab, Greenspan had the odd mishap - chief amongst them being on December 5, 1996, when this comment led to a small explosion:

[...] Clearly, sustained low inflation implies less uncertainty about the future, and lower risk premiums imply higher prices of stocks and other earning assets. We can see that in the inverse relationship exhibited by price/earnings ratios and the rate of inflation in the past. But how do we know when irrational exuberance has unduly escalated asset values, which then become subject to unexpected and prolonged contractions as they have in Japan over the past decade?

But undaunted, Greenspan soldiered on and, when Long Term Capital Management hit the skids in 1998, he set about his grand experiment - introducing manufactured complacency into the financial marketplace.

Prior to 1998, the business world had largely existed on a traditional cycle of boom and bust as contraction followed expansion and failing businesses were allowed to meet their inevitable demise. They were heady days indeed. People were wary of the potential pitfalls of bad decision-making and, while complacency was most certainly evident, its supply/demand situation spent many long periods in perfect equilibrium.

After Dr. Greenspan's introduction of artificial complacency, however, things began to change.

Buoyed by Dr. Greenspan's injection, the swift recovery from the fears over LTCM's collapse led to what became known as the NASDAQ Bubble during which, the complacency was there for all to see as tech companies with no business whatsoever traded on outsize multiples, every minor correction in the market was a chance to buy that stock you thought you'd missed and babysitters spent their days with one eye on the kids and one on the CNBC ticker. Complacency ruled the day.

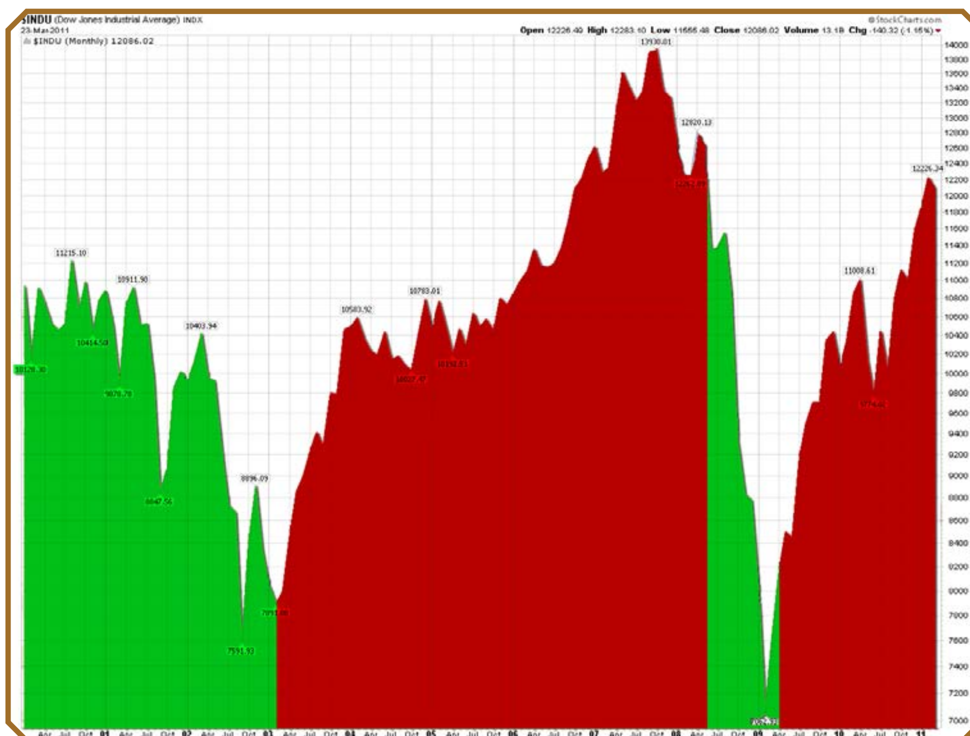
Companies trading at P/E Ratios in the hundreds became commonplace and such metrics were explained away simply and quickly to an investing public who desperately WANTED to believe what they were being told and if the voice that told them what they wanted to hear happened to come from a 'financial expert' or, even better, out of the magic box in the corner of their living room then that was the icing on the cake.

Of course, the complacency evaporated almost overnight as the NASDAQ Bubble burst but Dr. Greenspan's experiment was just getting started. A few soothing words here, a few rate cuts there and BINGO! the complacency returned as investors found a far more important asset inflating - their house. And not just their house, but the houses of all their friends and relatives as well as the second, third and fourth homes they were able to buy with zero money down. Oh boy did the complacency return!

Aside from a brief and rather sharp recession (compounded by the tragic events of September 2001, which induced another round of complacency-inducing policy action by the good Dr. Greenspan) stock markets continued to soar. But it wasn't merely stock prices soaring. Home prices soared, bond prices soared - everything soared. The box in the corner of every living room was replaced by a panel on the wall of every room, but the message spewing forth remained constant:

"Don't worry. Be happy"

Complacency was not only back in style, but was heading into bubble territory itself and sure enough, despite warning signs flashing everywhere as the housing market topped out in late 2006, complacency again ruled the day and markets continued to make new high after new high as the CNBC cheerleaders marked off milestone after milestone in the Dow Jones Industrial average through 2007 and into 2008. Aiding and abetting the lax attitude was a former laboratory assistant of Dr. Greenspan, Dr. Ben Bernanke (Dr. Greenspan had retired in 2006 with - or so he thought - his legacy intact and inviolable handing over the notes from his great find to Dr. Bernanke and riding off into the sunset and the after dinner mumbling circuit.)



SOURCE: STOCKCHARTS/TTMYGH

Even after Bear Stearns' implosion in March, the complacency was evident as markets tried to shake off the fear and bounce right back, but it suddenly became clear that complacency was definitely **SO** 2007.

As the chart of the Dow Jones Index from 2000 - 2010 (left) demonstrates, after 2008, the healthy concern levels (green shaded areas) dissipated rather quickly and gave way to a new and (potentially) far more dangerous bout of complacency thanks, almost entirely to two things.

Firstly, Dr. Bernanke found a

new and as-yet untried catalyst in the complacency creation - one that even Dr. Greenspan hadn't dared try - the monetization of the Federal Reserve balance sheet - and secondly (and far more alarmingly) Greenspan's experiment had created a mutant form of human nature, remarkably resilient to fear and more complacent than had ever been seen before in any laboratory.

This 'super-strain' of complacency - entirely dependent on Bernanke's new and improved injections - rendered those to whom it was administered seemingly impervious to fear or even mild concern and, in the age of Globalization, the super-strain traveled across the globe at lightning speed reaching Europe and Asia almost instantly.

Amazingly enough, as the world finds itself at a point where it arguably has more to worry about than at any point in living memory (the periods before World Wars notwithstanding, obviously), the levels of complacency are truly mind-blowing. Greek default? No need to worry about it just yet. What about Spain? Let's worry about that AFTER we need to worry about Greece, Portugal and Ireland, shall we? Slowing growth? Let's liquidate a few speculative commodity long positions - and put the money into stocks. Persistent inflation? Just focus on what the Fed tell us to - the CORE. Soaring gas prices? Crude was down this week and gas isn't over $4 a gallon yet so things are set to moderate in the second half. The plummeting value of the dollar? Just a phase - after all, the US is pursuing a 'strong dollar policy'.

...Banks all over the world that are essentially insolvent being allowed to value bad assets at inflated levels or keep bad debts off-balance sheet? Let them keep doing it then we don't need to worry about it.

It goes on...

Japanese quake? Market right back to where it was before the tremors and the Tsunami. Fukushima Dai-Ichi? The name rings a bell.... are they a baseball team?

Increasing delinquencies in the US housing market? They'll find a way to work it out.

Banks all over the world that are essentially insolvent being allowed to value bad assets at inflated levels or keep bad debts off-balance sheet? Let them keep doing it then we don't need to worry about it.

What about the fact that the US has hit its budget deficit ceiling? Surely THAT is an issue - what with the US being the world's largest debtor nation, and all? Well THAT's not actually a problem until Monday - and even then they have until August 2 before ACTUALLY defaulting - so why worry about it NOW?

I could go on - unfunded liabilities, double-dips in the housing and employment markets in the US, inflation concerns in China, civil unrest across the world's oil-producing countries that has toppled governments and ended in civil wars, persistent inflation in the UK running at more than twice the targeted rate, a disaster just waiting to happen in the Australian housing market and the terrifying prospect of a Donald Trump/Sarah Palin 'Dream Ticket' - but we have neither the time nor the space to lay out in detail everything we OUGHT to be concerned about so let's just focus on two for today.

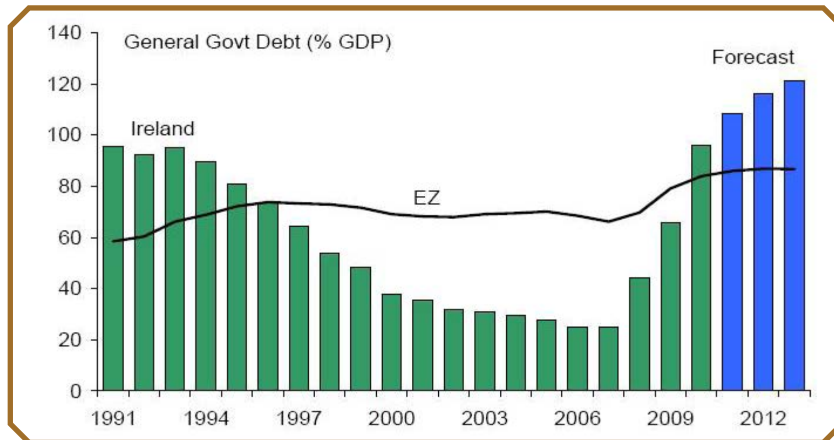
First up, Europe.

I had a most interesting hour this week talking to the FX strategists of a major investment bank here in Singapore and the key word I heard more than any other was - you've guessed it - 'complacency'.

The strategist in question had been talking to central banks around the region (as strategists are wont to do) and, until the now-famous Der Spiegel article on Greece's possible exit from the Euro, he

hadn't been asked a single question about the PIIGS by an Asian Central banker. Not one. I found that extraordinary.

In amongst those countries potentially lies the fate of the world's second-most important currency (sorry Japan, Mervyn, you've had your chance, and China? Not just yet fellas) and yet it didn't appear to be on Asian central bank radar screens.



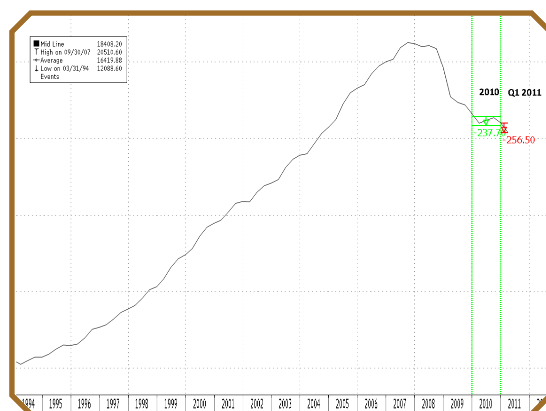
SOURCE: REUTERS/ECOWIN PRO

The second takeaway from our discussion was that Spain is Ireland (albeit with better weather and better football teams) but a couple of years behind. Prior to the meltdown in Ireland, its fiscal position was sound. Low debt-to-DGP ratio of around 30% and a booming construction and housing sector which was a direct result of the labwork of Drs. Greenspan and Bernanke.

But then came 2008 and the bust, at which point Ireland made a swift, knee-jerk decision designed to avoid the necessary pain that ought to follow any business cycle boom that goes too far - they essentially nationalized the Irish Banks.

As the chart, above, shows, that took Irish debt levels into nosebleed territory - and quick - and it has become the anchor around the neck of the Emerald Isle. The Irish people have been behaving themselves thus far and putting up with the austerity being imposed upon them with a grumbling grace (unlike their Greek cousins), but Irish ire is rising and the Irish people are starting to fidget in their seats. Morgan Kelly's recent article (link) in the Irish Times seems to have been read by everybody this past week and it advocates an entirely new form of 'jingle mail' as he recommends the Irish simply walk away from the government guarantees made to the banking system back in 2008 and leave the problems at the door of the ECB. From my discussions this week, it is clear that the Irish are just biding their time to demonstrate their collective hatred of Public Enemy #1 - the ECB - and, due to the complex make up of the EU constitution, where referendums are becoming more commonplace in order to pass major legislative changes, they will no doubt soon be given their chance.

Meanwhile, over in Spain the problems continue to both spread and mount.



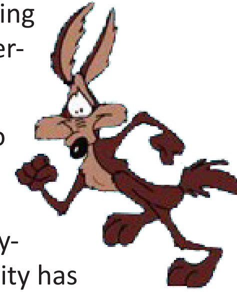
SOURCE: BLOOMBERG

The economic data coming out of Spain is deteriorating rapidly across a broad spectrum of measures. This past month we have seen Retail Sales fall 8.6%, unemployment hit levels not seen in over a decade and, perhaps most startling of all, the number of Spaniards employed in Q1 2011 fell more than in the whole of 2010 (chart, left).

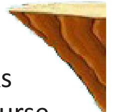
But the key to the entire mess remains the housing market.

Irish housing prices have fallen some 40% - 50% from the peak and, perhaps, have scope to fall another 10% - 20% before they find a true bottom. They will most likely stay at those deflated levels for

some time while the market clears, but they are within striking distance of their nadir. In Spain, the situation is completely different, however.



Based on anecdotal evidence from several friends of mine who have property interests in Spain, and backed up in my conversation this week, it is abundantly clear that Spanish property prices are akin to Wile E. Coyote - suspended in mid-air and defying gravity. Prices have been marked down 10% - 15% and activity has dried up, giving the semblance of a halt in their slide. But beware.



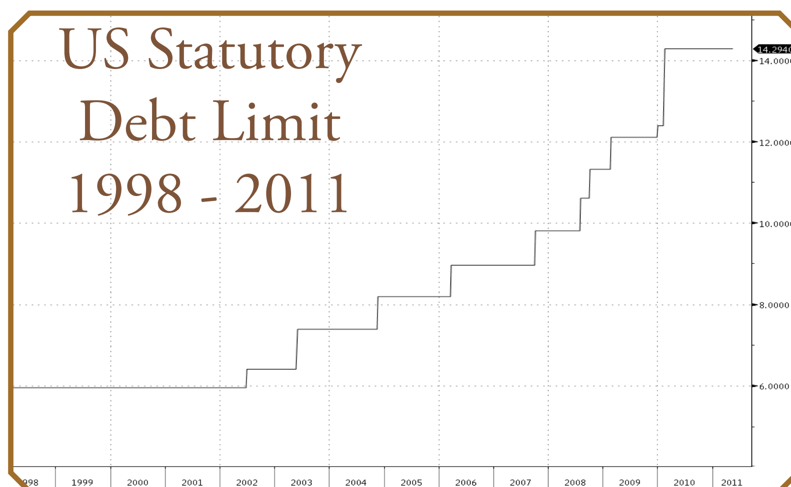
... The moment the Spanish banks (and cajas) write their loan books to fair value they will all be puffs of smoke rising from the canyon floor

Banks have tens of thousands of non-performing loans on their books and are locked in a spiral of lawsuits as Spanish mortgages are recourse loans and the lender has the right to chase the defaulting party through the European courts to seize assets held anywhere in Europe for 15 years after the default. The key phrase in that last statement, however is 'through the European Courts'. Good luck with that Senors and Senoritas. Spanish banks are also frantically negotiating with potential defaulters and offering some crazy deals in order to avoid having to take the properties back onto their balance sheets or - worse still - sell them at fair market value and realize the resulting loss.

Sadly, we all know what happens to poor Wile E. - normally just after he pulls out the sign that says 'HELP!'. He plummets to the canyon floor - his impact being announced by a small puff of white smoke rising forlornly from below.

The moment the Spanish banks (and cajas) write their loan books to fair value they will all be puffs of smoke rising from the canyon floor so don't expect that to happen until such time as it is forced upon them, but in the meantime, DO pay attention to the fact that the economic situation in Spain is deteriorating quite rapidly and, as everybody acknowledged, when Spain was briefly at the front of the collective conscious a few months ago, the EU simply CANNOT afford to bailout Spain. At some point in, I suspect, the not-too-distant future, that little fact is suddenly going to matter.

The second area of focus for us today is the US statutory debt limit which, as I may have already mentioned, is set to be breached tomorrow.



SOURCE: BLOOMBERG

Always ahead of the curve, Treasury Secretary Timothy Geithner took the opportunity to write to Senator Michael Bennett on Friday to answer his request for an estimate of the fiscal and economic consequences of failing to raise the statutory debt limit.

In his response to Senator Bennett's request for an estimate, Geithner pointed out the following:

I hope that Congress will act in a timely manner to increase the debt limit and protect the full faith and credit of the US government...

Failure to raise the debt limit would force the

United States to default on these obligations, such as payments to our servicemembers, citizens, investors and businesses. This would be an unprecedented vent in American history.

In case the Honorable Gentleman wasn't sufficiently scared at this point, Geithner continued:

A default would inflict catastrophic, far-reaching damage on our Nation's economy, significantly reducing growth and increasing unemployment.

"...a few members were even told that there would be martial law in America if we voted no."

The remainder of Geithner's letter is a masterpiece in scare tactics. He highlights every possible pitfall of a failure to raise the debt ceiling and uses examples of families unable to buy a home, children unable to attend college, retirees having their savings decimated and even calls upon the ghost of Lehman Brothers to illustrate why the ceiling simply MUST be raised.

Of course, nowhere in his epistle is there mention of the effects of the Treasury's 'strong dollar policy' which, coincidentally, include dramatic increases in college tuition fees and the eating away of retirement savings through pernicious inflation - but that's by the by.

Back in 2008, when former Secretary Hank Paulson found himself in similar, though not identical straits - needing Congress to approve the creation of TARP, similar scare tactics were employed with Paulson telling a private gathering of Congress that if they rejected the bailout bill another great depression would ensue, that there would be a breakdown in law and order as well as food riots and civil unrest. He added that he couldn't reveal such things publicly for fear that the situation would "terrify the American people and lead to an even bigger problem". Congressman Brad Sherman outlined Paulson's threats on October 2, 2008:

"Many of us were told in private conversations that if we voted against this bill on Monday that the sky would fall, the market would drop two or three thousand points the first day, another couple of thousand the second day, and a few members were even told that there would be martial law in America if we voted no."

Geithner's letter to Senator Bennett reminded me of a letter posted at the time of the TARP vote by Suzy Kolber, the text of which I include below. Please feel free to substitute the word 'Geithner' for the word 'Paulson' should you so wish. The content of the letter will not be affected.

Subject: Request for urgent business relationship

Dear American:

I need to ask you to support an urgent secret business relationship with a transfer of funds of great magnitude.

I am ministry of the treasury of the republic of America. My country has had crisis that has caused the need for large transfer of funds of 800 billion dollars us. If you would assist me in this transfer, it would be most profitable to you.

I am working with Mr. Phil Gram, lobbyist for UBS, who will be my replacement as Ministry of the Treasury in January. As a senator, you may know him as the leader of the American banking deregulation movement in the 1990s. This transaction is 100% safe.

This is a matter of great urgency. We need a blank check. We need the funds as quickly as possible. We cannot directly transfer these funds in the names of our close friends because we are constantly under surveillance. My family lawyer advised me that I should look for a reliable and trustworthy person who will act as a next of kin so the funds can be transferred.

Please reply with all of your bank account, IRA and college fund account numbers and those of your children and grandchildren to wallstreetbailout@treasury.gov so that we may transfer your commission for this transaction. After I receive that information, I will respond with detailed information about safeguards that will be used to protect the funds.

Yours faithfully Minister of Treasury Paulson

Back to the present now, and in the Wall Street Journal this weekend, Stanley Druckenmiller is adamant that things have to change:

'A financial crisis is surely going to happen as big or bigger than the one we had in 2008 if we continue to behave the way we're behaving," says Stanley Druckenmiller, the legendary investor and onetime fund manager for George Soros. Is this another warning from Wall Street that Congress must immediately raise the federal debt limit to prevent the end of civilization?

No—Mr. Druckenmiller has heard enough of such "clamor and hyperbole." The grave danger he sees is that politicians might give the government authority to borrow beyond the current limit of $14.3 trillion without any conditions to control spending.

The article continues:

"I think technical default would be horrible," he says from the 24th floor of his midtown Manhattan office, "but I don't think it's going to be the end of the world. It's not going to be catastrophic. What's going to be catastrophic is if we don't solve the real problem," meaning Washington's spending addiction.

Full Article

So, somewhere between "catastrophic, far-reaching damage on our Nation's economy" and "It's not going to be catastrophic" lies the truth I guess.

Unfortunately, as we have often posited in these pages, when the going gets tough, the pols get polling and clearly, the way to win votes is NOT by risking a few years of fiscal hardship - particularly while the shell game of the dollar being the world's reserve currency continues to somehow be played by everybody passing by the Bunko Booth - but it is to continue the game of extend and pretend in the hope that when the day of reckoning comes, it will be on some other schmuck's watch.

And therein lies the rub.

In the same way that nobody could believe the Euro could be in danger or that Spain could possibly default a few years ago, so nobody could ever imagine a situation where the US could default. Consequently there is an inherent feeling of safety in pushing things further into the future because it hasn't happened before so it couldn't possibly happen in the future right? Right?

As if by magic, as I write this note, my inbox is blessed with John Mauldin's latest offering and, as always, it is a wonderful read from start to finish (well not QUITE so wonderful right to the finish as I'm insanely jealous of John's travel plans!!!). John has long written about 'kicking the can down the road' but this week he ponders what happens when the can has been kicked to the end of that road and in doing so touches upon many of the topics covered here.

(Many of you will already have read John's letter, but for those amongst you who haven't, you can find it here and if you haven't already subscribed to John's work then be sure to do so as it will consistently be one of the best things you read every week.)

We'll leave the last word here to Mr. Mauldin who continues to be far more erudite than I when putting pen to paper:

> *European leaders will continue to try to kick the can down the road. I would not be surprised to see no real "crisis" this year. But there is an Endgame. And I think it involves voters and not just leaders. The guy in the street can see that bailing out countries is really just a back- door way to bail out banks on the backs of taxpayers and the currency. If it were just Greece, maybe. But it is Portugal and Spain. Especially Spain. Spain is too big to save. I love Spain; it is one of the most beautiful and gracious of countries. But there are real problems. The banks have maybe – maybe – written down their housing-related losses 10%. It should be more like 40%, which would make most Spanish banks insolvent, so they won't write them down. Unemployment is over 20% and rising. Like Ireland, they allowed their housing market to get away from them. They believed that someone was going to buy all those homes they were building. And now they are teetering on recession and likely to fall back soon, which makes collecting taxes and cutting spending more difficult. With each new data point this year, Spanish debt costs will rise.*
>
> *Each new version of the crisis will spook the bond markets yet again. When you look at the economies of the euro-peripheral countries, it is hard to see how they can dig themselves out without a great deal of pain and serious spending cuts, which of course means slower economies and even more pain. But that is the only way through, short of the Eurozone basically guaranteeing all debt for a long time, which means you are asking Finnish and German and Dutch and French voters to agree to take on more taxes to pay that debt. Or it means a real loss of sovereignty and control for debtor nations. (Maybe I should take in a trip to Portugal as well. Another country I have yet to visit, and another crisis to take note of firsthand.) I cannot see European countries giving up their national sovereignty willingly.*
>
> *In the end, this comes down to elections. It becomes not a matter of high finance and political will on the part of European leaders, but of how you convince the burghers in Germany and the practical Dutch (et al.) of the need to share some Greek pain. It requires convincing the Irish people to assume that bank debt, when they have already told their leaders no. I am glad that is not my job.*

Well said, Sir, well said indeed.

Today's offering includes several articles on the mess in Europe, including a look at Greek reverse migration, their hidden currency swaps with the current pantomime villain, Goldman Sachs, and the impending Portuguese bailout along with Greece 2: The Sequel. We also hear from Jurgen Starck who once again fires up the Rhetoricmobile and warns us of dire trouble if we force the Greeks to settle their bills through restructuring. Thanks Jurgen. Unsurprisingly, there is growing discord amongst the nations of the EU and Der Spiegel takes a look at the rise of European self-interest.

Steve Forbes predicts a gold standard n the US within 5 years, Jesse looks at US monetary aggregates, we listen to Charles Hugh-Smith's thoughts on the Marxism of the US and China, The Atlantic gives us a behind-the-scenes look at Bill Gross' big Treasury call and Shanghai breaks ranks and CUTS silver margins which leads to a massive surge in volume.

We have charts of the Mega-Bears, the XAU and a look at how corporations avoid paying taxes as well as graphic representations of Bill Gross' recent investment letters and interviews with Robin Griffiths, Jim Rickards and Eric Sprott.

The King of the Bailouts needs bailing out. The weirdness continues.

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The Vigilante

Charts That Make You Go Hmmm.....

Words That Make You Go Hmmm.....

And Finally.....

High in the hills of Arcadia, in a big stone house on the edge of this village overlooking verdant pastures and a valley beyond, a group of young Athenians are busy rebuilding their lives.

Until recently Andritsaina was not much of a prospect for urban Greeks. "But that," said Yiannis Dikiakos, "was before Athens turned into the explosive cauldron that it has become. We woke up one day and thought we've had enough. We want to live the real Greece and we want to live it somewhere else."

Piling his possessions into a Land Rover and trailer, the businessman made the 170-mile journey to Andritsaina last month. As he drove past villages full of derelict buildings and empty homes, along roads that wound their way around rivers and ravines, he did not look back.

... "The reality is that these people, they are in deep sh*t," the managing director of the IMF, Dominique Strauss-Kahn said recently.

"Athens has failed its young people. It has nothing to offer them any more. Our politicians are idiots ... they have disappointed us greatly," said Dikiakos, who will soon be joined by 10 friends who have also decided to escape the capital.

They are part of an internal migration, thousands of Greeks seeking solace in rural areas as the debt-stricken country grapples with its gravest economic crisis since the second world war.

"It's a big decision but people are making it," said Giorgos Galos, a teacher in Proti Serron on the great plains of Macedonia, in northern Greece. "We've had two couples come here and I know lots in Thessaloniki [Greece's second biggest city] who want to go back to their villages. The crisis is eating away at them and they're finding it hard to cope. If they had just a little bit of support, a little bit of official encouragement, the stream would turn into a wave because everything is just so much cheaper here."

The trickle into Proti Serron might have gone unnoticed had the village not also been the birthplace of the late Konstantinos Karamanlis who oversaw the nation's entry into the then European Economic Community in 1981. An alabaster white statue of the statesman in the village square is adorned with the words: "I believe that Greece can change shape and its people their fate."

Nearly sixty years after they were uttered, a growing number of Greeks, at least, are beginning to wonder whether the old man was right. The drift towards the bright lights of the big cities were by Karamanlis' own admission one of the great barometers of the country's transition from a primarily agricultural society into an advanced western economy. This week, as the IMF and EU debated ways of trying to re-rescue Greece and observers openly wondered whether the country would have to leave the euro, Greece appeared more adrift than ever, tossed on a high sea of mounting anger and civil disobedience from people who have lost trust in their politicians, and at the mercy of markets that refuse to believe it can pull itself back from the brink of bankruptcy. "The reality is that these people, they are in deep shit," the managing director of the IMF, Dominique Strauss-Kahn said recently. "If we had not come they would have fallen into the abyss. Two weeks later the government would not have been able to pay civil servants' wages."

★ ★ ★ *UK GUARDIAN* / **LINK**

They were the usual words of reassurance and conciliation. "Content is more important than timing," EU Energy Commissioner Günther Oettinger said on Thursday, addressing a disagreement in Brussels over "stress tests" for 143 European nuclear reactors. "The public expects credible tests that will cover all foreseeable risks and security concerns."

Like so much else in recent weeks, the safety tests for European nuclear plants have been a point of contention in Brussels. The meeting between Oettinger and representatives of the 27 member states ended without tangible results. In the wake of the Fukushima disaster the EU agrees that stress tests are important, but no one can agree on criteria. France and Great Britain, above all, have stonewalled detailed EU examinations -- they see no reason to test their reactors with regard to anything besides natural catastrophes.

Nuclear stress tests are just one example, though, of an atmosphere at the EU in which communal feeling is crumbling. The financial crisis has split the continent, and "me first" has become the new credo in Brussels. Denmark just this week shut its borders unexpectedly -- stepping back from the Schengen Agreement on visa-free travel throughout the EU on account of a sudden wave of immigrants fleeing chaos from the Arab Spring.

... After three bailout plans since the euro first wobbled -- and hundreds of billions of euros in loans and support for Greece, Ireland and Portugal -- Merkel's opponents fear that Berlin will become the paymaster for an increasingly hopeless euro zone.

Daniel Cohn-Bendit, a prominent Green member of the EU parliament, suggested that Copenhagen should feel swift consequences. "The Danes have to decide: If they want to be serious about closing their borders then they need to resign from the Schengen Agreement," he said to SPIEGEL ONLINE. "Then they'll need visas of their own to travel through Europe -- one for each country."

Finnish voters, meanwhile, gave enough support to a right-wing populist party in a recent national election to let them, conceivably, enter the government and derail an EU support package for debt-ridden Portugal. Until this week, it looked as if the nationalist True Finns would throw the rescue plan for the euro into doubt. In the end the party was outmaneuvered, though -- and decided not to join the government over precisely that issue.

"Me first" Europeans have also gained ground in Germany, for the same reasons. After three bailout plans since the euro first wobbled -- and hundreds of billions of euros in loans and support for Greece, Ireland and Portugal -- Merkel's opponents fear that Berlin will become the paymaster for an increasingly hopeless euro zone.

The threat is real for Merkel. A total of 19 members of parliament from the chancellor's coalition -- which consists of the conservative Christian Democratic Union (CDU), its Bavarian sister party the Christian Social Union (CSU) and the business-friendly Free Democratic Party (FDP) -- have supposedly said they are no longer prepared to support Merkel's plans to save the euro. But the ruling coalition has only a 20-seat lead over the combined caucuses of Social Democrats, Greens and Left Party members. If more politicians from the CDU, CSU or FDP decide to defect, Merkel's domestic majority for measures to save the euro will crumble, and she would be dependent on opposition votes to get legislation passed.

Which, of course, would be dangerous. "Germany is the most important anchor for Europe," says Friedrich Heinemann at the Centre for European Economic Research. "The whole crisis mechanism (for the euro) stands or falls on German support for EU bailout policies." Complications with the crisis mechanism would send shock waves through financial markets.

DER SPIEGEL / **LINK**

A return to the gold standard by the United States within the next five years now seems likely, because that move would help the nation solve a variety of economic, fiscal, and monetary ills,

Steve Forbes predicted during an exclusive interview this week with HUMAN EVENTS.

"What seems astonishing today could become conventional wisdom in a short period of time," Forbes said.

Such a move would help to stabilize the value of the dollar, restore confidence among foreign investors in U.S. government bonds, and discourage reckless federal spending, the media mogul and former presidential candidate said. The United States used gold as the basis for valuing the U.S. dollar successfully for roughly 180 years before President Richard Nixon embarked upon an experiment to end the practice in the 1970s that has contributed to a number of woes that the country is suffering from now, Forbes added.

... "What seems astonishing today could become conventional wisdom in a short period of time,"

If the gold standard had been in place in recent years, the value of the U.S. dollar would not have weakened as it has and excessive federal spending would have been curbed, Forbes told HUMAN EVENTS. The constantly changing value of the U.S. dollar leads to marketplace uncertainty and consequently spurs speculation in commodity investing as a hedge against inflation.

The only probable 2012 U.S. presidential candidate who has championed a return to the gold standard so far is Rep. Ron Paul (R.-Tex.). But the idea "makes too much sense" not to gain popularity as the U.S. economy struggles to create jobs, recover from a housing bubble induced by the Federal Reserve's easy-money policies, stop rising gasoline prices, and restore fiscal responsibility to U.S. government's budget, Forbes insisted.

With a stable currency, it is "much harder" for governments to borrow excessively, Forbes said. Without lax Federal Reserve System monetary policies that led to the printing of too much money, the housing bubble would not have been nearly as severe, he added.

"When it comes to exchange rates and monetary policy, people often don't grasp" what is at stake for the economy, Forbes said. By restoring the gold standard, the United States would shift away from "less responsible policies" and toward a stronger dollar and a stronger America, he said. "If the dollar was as good as gold, other countries would want to buy it."

★ ★ ★ *HUMAN EVENTS* / **LINK**

Greece had 13 off-market derivative contracts with Goldman Sachs Group Inc. (GS), most of which swapped Japanese yen into euros in a 2001 transaction aimed at concealing the true size of the nation's debt, according to the European Union's statistics office.

The amount borrowed through the swaps was due to be repaid with an interest-rate swap that would have spread payments through 2019, Eurostat said in a report on its website today. In 2005, the maturity was extended to 2037, the report said. Restructuring the swaps spread the cost over a longer period, leading to an increase in liabilities and debt, Eurostat said.

Repeated revisions of Greece's figures, beginning in 2009, spurred a surge in borrowing costs that pushed the country to the brink of default and triggered a region-wide debt crisis. The use of off-market swaps, which Greece hadn't previously disclosed as debt, let the country increase borrowings by 5.3 billion euros ($7.5 billion), Eurostat said in November.

Today's report provides details of Eurostat's analysis of data obtained by its inspectors in Greece last year. Eurostat said most issues surrounding the swaps were resolved in September, when Greece

agreed to correct its debt figures.

A phone call and an e-mail to a Goldman Sachs spokeswoman in London weren't immediately returned.

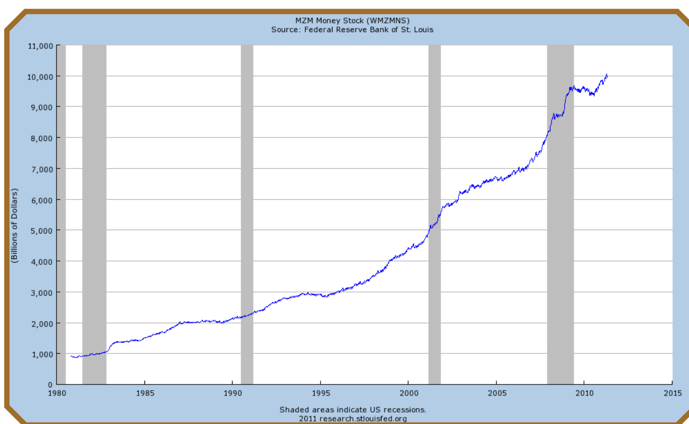
Greece agreed in September with Eurostat to treat other swaps from 2005 as debt. Those contracts had "very short maturity, with a quick amortization of the loan component," Eurostat said.

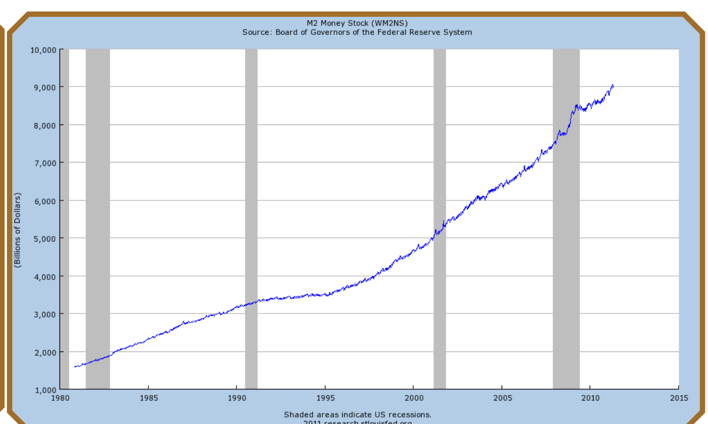
The Goldman Sachs deal originally amounted to a loan of 2.8 billion euros, according to Eurostat. National Bank of Greece SA (ETE), the country's biggest lender, in 2005 took over the swap from New York-based Goldman Sachs. Four years later, National Bank securitized the swap, Eurostat said.

BLOOMBERG / **LINK**

It is easy to be misled by short term trending in money supply charts, especially those showing year over year growth as a percentage. Money supply changes are seasonal and often very volatile, but never more so during a credit collapse and quantitative easing.

A look at the longer term trends is most useful.





CLICK TO ENLARGE

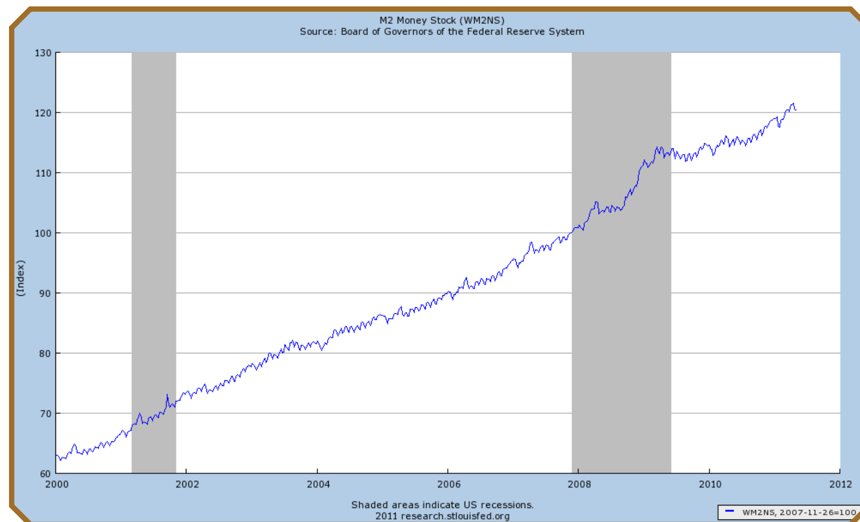
SOURCE: ST LOUIS FED

The last chart [next page] is an index where 100 equals the M2 supply around the end of 2007, and the onset of the credit crisis. Since then it has grown almost twenty percent.

Has GDP or the population grown 20 percent? So money per capita or per unit of productive effort is growing.   All one has to do is look at some reality based metric of money supply growth and negative real interest rates to understand the ten year bull market in gold and silver, and commodities in terms of US dollars.

I understand people like to look at the various independent M3 estimates, but since the Fed no longer reports Eurodollars I have not seen what I could consider a credible recent estimate. And I doubt VERY much that M3 is underrunning M2 given the dollars that the Fed has been spreading around the world's banks.

Can the Fed keep this QE up? Will deflation set in, finally? It is a policy decision in a purely fiat currency. That could change, and I will know what to look for when it does. The Fed could be subjected to some external force, either from foreign creditors or domestic politics.   I expect that foreign shock to be inflationary rather than deflationary however. As for the domestic forces, a choice for third world status is always an option.



CLICK TO ENLARGE **SOURCE:** ST LOUIS FED

The top five percent of Americans hold by far most of the country's wealth. And deflation may be in their short term interests, as in the case in the UK which seems to be going down that path. These policy decisions bring up a different set of considerations, many of which will stress the social fabric to the breaking point. But a people grown coarse by war and ideology have done much odder things before.

But for now the trend has not changed, and it would probably take a global economic collapse to change it. That is possible. And in such an event everything will get sold, for a time, as they were in the market crash of 2008.

JESSES CAFE AMERICAIN / **LINK**

The cliché "end of an era" is always used when a stalwart of a period passes away. I read it in most reports about Gunther Sachs's suicide last week. The trouble is that Gunther's era ended long ago, during the late Sixties, when the word "playboy" was considered a badge of honour among those of us who preferred playing rather than working.

It was a sleepy, unhurried, bygone age, yet most of the famous playboys died violently: Alfonso de Portago, a Spanish marquis of impeccable credentials, died at 27 driving his Ferrari in the Miglia Mille race in May 1957 in Italy. Prince Aly Khan, son of the Aga Khan, a diplomat, second husband of Rita Hayworth, and a fabled seducer, died aged 49, driving his Lancia to a Paris party when he hit an oncoming car and was given le coup du lapin by his chauffeur, whom Aly had placed in the back seat.

The greatest playboy of them all, the Dominican diplomat and sportsman Porfirio Rubirosa, five-times married, husband of three of the world's richest women and two of the most beautiful, died in the park of St Cloud near Paris, returning from a party following a polo game in which I had played. It was 5am and Rubi was driving a Ferrari at full speed. The date was July 6 1965 and he was 56 years old.

Juan Capuro, a South American diplomat perennially posted in Paris and a Don Juan sans pareil, as well as the best-looking man of his generation, died in 1966 driving a Porsche, after an all-nighter, needless to say. Prince Raimondo Lanza, a nephew of the great Giuseppe Tomasi di Lampedusa, and the model for Prince Tancredi in Lampedusa's elegiac lament for a lost Sicilian world, The Leopard, threw himself out of an Excelsior Hotel window in Rome in 1958, having ingested too much Bolivian marching powder.

... The greatest playboy of them all, the Dominican diplomat and sportsman Porfirio Rubirosa, five-times married, husband of three of the world's richest women and two of the most beautiful

There were others, of course, some of whom died in their beds, but most playboys of that elegant period did not reach the awkward age of 60. Gunther Sachs was 78, a ridiculously old age for a playboy, which he was par excellence. Gunther, who became the third husband of Brigitte Bardot two months after meeting her – he showered her home with thousands of roses from a helicopter the day after spotting her in a bar – modelled

himself on Rubirosa when he arrived in Paris in 1957. They became fast friends – Gunther had the funds, Rubi had the connections and know-how – and proceeded to give non-stop parties such as I have never seen again.

UK DAILY TELEGRAPH / **LINK**

The fundamental dynamics of the U.S.-China trade partnership--certainly the biggest economic story of this generation--boil down to "capital exploits labor." I am well aware that this sort of quasi-Marxist analysis is supposed to be passe in the era where young nerds can start billion-dollar enterprises in a garage or dorm room. Capitalism is a priori "win-win," as all those workers in China are getting ahead while our youth launch $50 million IPOs of social networking Web 2.0 companies.

But if you scrape away the high-gloss propaganda and myth-making, then the fundamental dynamic is definitely Marxist: American capital jettisoned American labor as a costly hassle in favor of cheap, no-hassle Chinese labor.

Since Capital's best buddy in the whole world is the Central State and its proxies, i.e. the Federal Reserve, then the Central State and the central bank (the Fed) smoothed over the exploitation and furthered the consumer economy by inflating a credit-housing bubble. Since 60% of American households own a home, this enabled the increasingly impoverished "middle class" to borrow trillions of dollars in "free" money that could be spent--surprise!--on the new imports from China that filled the shelves of big box global retailers everywhere.

Allow me to illustrate this dynamic by deconstructing two recent stories in the Mainstream Financial Media: 'Superjobs': Why You Work More, Enjoy It Less (WSJ.com) Businesses expect a lot more out of their employees these days...

Taco Bell and the Golden Age of Drive-Thru Operational innovations at restaurants like Taco Bell rival those at any factory in the world.

The first piece describes in clinical fashion how U.S. capital is ruthlessly exploiting labor, demanding more work for little to no additional pay. The underlying dynamic here is purely Marxist: capital encourages over-supply of labor, which then drives the value of labor down. Competition for the few jobs available makes desperate wage-earners willing to put up with exploitation and insecurity because the options of escaping the cycle of centralized Corporate value extraction are insecure and risky.

SOURCE: STREET TALK LIVE

Global Corporate America fosters a surplus of labor in the U.S. via three mechanisms:

1. vast illegal immigration which keeps labor costs down in low-skill corporate workhouses such as slaughterhouses, fast-food outlets, etc.

2. H1-B visas for high-tech workers (now falling out of favor as those positions are better filled directly in India and China).

3. ship production, software coding and back-office functions to China, and to a lesser degree, to India and elsewhere in east Asia.

The unemployment rate among PhDs is roughly 50%. So much for "winning" by becoming ever more educated. The number of slots in academia is shrinking, and the total number of research positions is relatively inelastic.

★ ★ ★ *CHARLES HUGH-SMITH* / **LINK**

Brussels is expected this week to unveil the details of its €78bn (£69bn) rescue for Portugal as it attempts to hammer out a second emergency package for Greece.

Final terms of the Portuguese deal will be unveiled after the meeting of eurogroup finance ministers on Monday. Portugal is expected to be charged an average loan rate of about 5.5pc – cheaper than Ireland's 5.8pc but more expensive than the Greek level of just over 4pc.

Concerns that debt woes could spread across the eurozone prompted the European single currency to plunge to a six-week low on Friday

Britain will be on the hook for about €4.2bn but George Osborne is expected to declare victory in extricating the country from any future rescues for the single currency bloc. He will join the eurogroup finance ministers in Brussels on Monday as they put the finishing touches to the future European Stability Mechanism, which comes into effect in 2013. The UK will not be part of the scheme. The announcement will be seen as a victory for the Chancellor and Prime Minister, who have fought to remove Britain from the eurozone's woes. Alistair Darling, when Chancellor, pledged €8bn of UK taxpayer money to the eurozone's €60bn rescue fund in dying days of the Labour administration.

...Including the Greek and Irish bail-outs, the UK will be on the hook for a total of about €12.5bn once the Portuguese deal is ratified

Mr Osborne will also reiterate that Britain will not be part of a second European rescue package for Greece. Confirmation came last week from Christine Lagarde, the French finance minister, who said: "The way went we about Greece last time on this bail-out package was on a bilateral basis, where each member of the eurozone went to bilateral arrangements because we didn't have any mechanism in place.

"And the consideration at the moment is to extend those, if it was necessary, and clearly the UK was not party to those bilateral arrangements."

Greece is expected to receive a second rescue of up to €60bn, though no final decision will be made for a number of weeks. At that level, and following the structure of the first bail-out, the UK will be on the hook for another €700m through its 4.5pc stake in the International Monetary Fund.

Including the Greek and Irish bail-outs, the UK will be on the hook for a total of about €12.5bn once the Portuguese deal is ratified. The money is only at risk if a country defaults. Britain has pledged about €7bn to Ireland, €4.2bn to Portugal, and €1.3bn to Greece.

★ ★ ★ *UK DAILY TELEGRAPH* / **LINK**

Restructuring Greece's debt would have "massive harmful effects" on the embattled country and would not solve its financial crisis, one of Europe's most senior banking officials has warned.

In comments designed to boost confidence in financial markets, Jurgen Stark, executive board member at the European Central Bank, said speculation that Greece is insolvent was a "false assumption".

"I would warn against underestimating the massive harmful effects a debt restructuring would cause for the country involved and for the eurozone as a whole," Mr Stark said, according to Reuters reports.

Global equity markets have been hit this week on fears that Greece could fail to meet debt repayments terms and be forced to call for a second bail-out.

Mr Stark said such a restructuring could lead to contagion. “It is very well conceivable that the risks for financial market stability could spread to other European countries,” he said. “The idea that one could then solve a fiscal crisis through a simple debt reduction [from a restructuring] is consequently an illusion.”

The ECB executive, who heads up the Bank’s economics department, said it would take time for Greece’s new economic realities to find support, but warned that a second bail-out would put necessary reforms at risk.

“In the case of Ireland and Portugal there is broad support and accountability. I expect this will soon be the case in Greece as well,” he said.

★ ★ ★ *UK DAILY TELEGRAPH* / **LINK**

The Shanghai Gold Exchange (SGE) will cut silver margin requirements to 18 percent from 19 percent from May 13 settlements if there is no sharp movement in prices, it said on Friday.

News of the margin decrease helped push the SGE silver forward contract up by 2.4 percent to close at 7,845 yuan ($1,207) per kilogram.

... “China is no doubt a big buyer of silver but it is pricing during the U.S. trading hours that drives the market more than that during the Asian trading hours,”

Trading volumes for the contract have surged. According to data from the SGE, volumes rose 3,043 percent from the start of the year to 2,256,280 kg on Friday.

“I think the lowering of the cost of trading could have helped in bringing silver investors back into the market today,” said Ong Yi Ling, analyst with Phillip Futures.

The SGE has hiked margin requirements for its silver forward contract five times since April 25 in order to curb volatility in the market.

“Silver is now the most speculated metal and any lowering of margins will lure more investors back,” said Hong Kong-based physical gold dealer Ronald Leung.

The exchange also said it would keep daily price move limits unchanged, after lifting them to 13 percent on Thursday from 10 percent set on May 9.

Ong said the surge in speculative silver trade in Shanghai was unlikely to be a factor behind the rapid rise and subsequent crash in global silver prices over the year.

“China is no doubt a big buyer of silver but it is pricing during the U.S. trading hours that drives the market more than that during the Asian trading hours,” Ong said.

★ ★ ★ *SHARENET* / **LINK**

In February 1993, as the fledgling Clinton administration grappled with the nation’s budget woes, campaign adviser James Carville groused to The Wall Street Journal: “I used to think if there was reincarnation, I wanted to come back as the president or the pope or a .400 baseball hitter. But now I want to come back as the bond market. You can intimidate everyone.” If Carville were

serving in the Obama administration today, he'd be seeking reincarnation as Bill Gross. The founder and co–chief investment officer of PIMCO, Gross runs his firm's Total Return Fund—the world's largest mutual fund, with holdings entirely in bonds. And for some time, he has been an outspoken critic of U.S. economic policy.

Gross demurred when I suggested that James Carville might want to be him. "I thought the remark was striking at the time," he said, "but no, I didn't feel that they were catering to us at every turn."

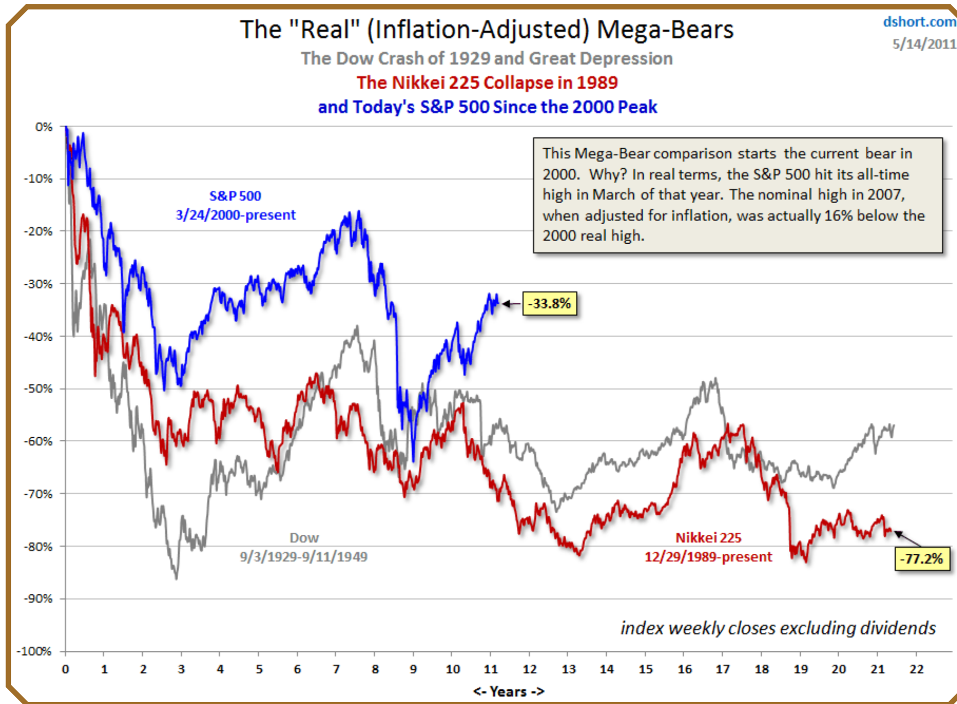
.. This year, the Congressional Budget Office expects us to borrow another $1.5 trillion. In just two years, we will have borrowed almost 20 percent of gross domestic product

But Democrats wrestling with the legacy of Ronald Reagan's deficits resented the influence of what the analyst Ed Yardeni had dubbed "the bond vigilantes": the investors who enforce fiscal and monetary discipline when governments won't. If your political system inflates its currency, or fails to align its spending with its tax revenues, the bond vigilantes will raise your interest rates until you either get it together ... or catapult into a crisis.

In the 1990s, we chose to get it together; thanks to tax hikes under both Bush I and Clinton, and a massive influx of capital-gains-tax revenue from the stock-market bubble, we even enjoyed a brief surplus. The bond vigilantes retreated over the horizon. But now deficits are back—and bigger than ever. In 2010, the United States spent $1.3 trillion more than it took in.

This year, the Congressional Budget Office expects us to borrow another $1.5 trillion. In just two years, we will have borrowed almost 20 percent of gross domestic product, or more than $9,000 for every person in the United States. But we won't be borrowing it from Bill Gross. For some time, he'd been selling his Treasury holdings, and by early March, he had reportedly dumped all of them. Then in mid-April, Gross upped the ante by placing bets against U.S. bonds in the market, a move that pushed the Total Return Fund's holdings of U.S. debt to the equivalent of minus 3 percent. If the bond vigilantes really are getting the gang back together, then the size of Gross's funds—and his recent divestment—would seem to make him their leader. With economists and politicians warning about the dire consequences of out-of-control deficits, it seemed like a good time to sit down and ask Gross how dire the situation was. Is the United States really heading for an epic showdown with the debt markets? And if it comes, how badly will we be hurt?

★ ★ ★ *THE ATLANTIC* / **LINK**



CLICK TO ENLARGE

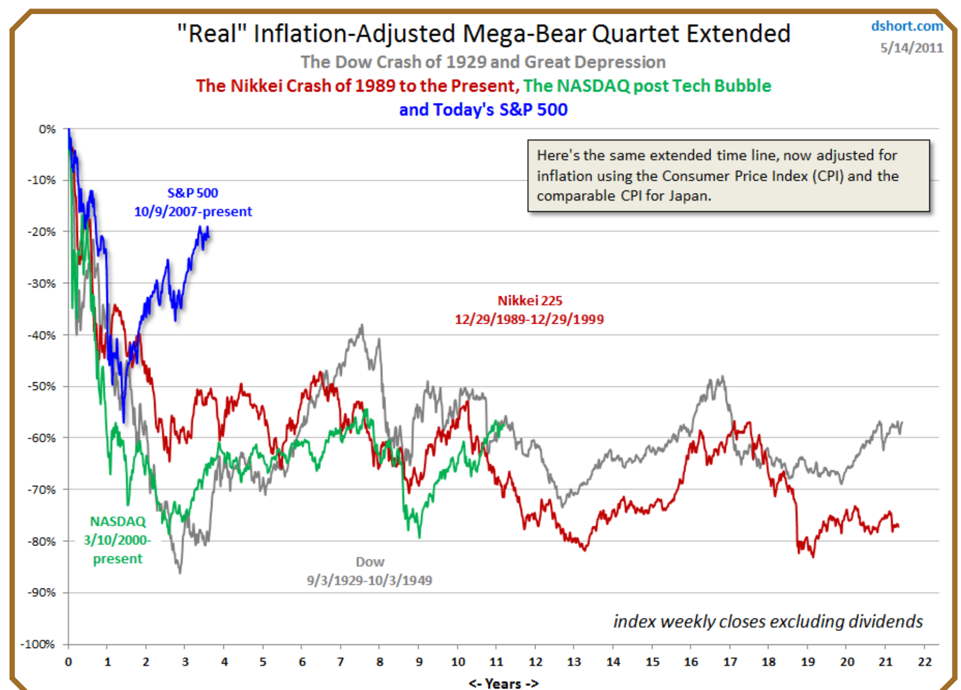
SOURCE: D SHORT

It's time again for the weekend update of our "Real" Mega-Bears, an inflation-adjusted overlay of three secular bear markets. It aligns the current S&P 500 from the top of the Tech Bubble in March 2000, the Dow in of 1929, and the Nikkei 225 from its 1989 bubble high.

This chart is consistent with my preference for real (inflation-adjusted) analysis of long-term market behavior. The nominal all-time high in the index occurred in October 2007, but when we adjust for inflation, the "real" all-time high for the S&P 500 occurred in March 2000.

Here is a nominal version to help clarify the impact of inflation and deflation, which varied significantly across these three markets.

D SHORT / LINK



CLICK TO ENLARGE

SOURCE: D SHORT

CLICK TO ENLARGE

SOURCE: DAN NORCINI

The large cap mining stocks continue to get obliterated as evidenced by the XAU which is now perched precariously above a critical support level on the weekly chart. The entirety of the gains of 2011 have now been erased by this continued ratio spread trade which will not let up.

To give you an idea of how obscene this trade has become, when the XAU was trading at today's levels back in January of this year, gold was trading in the low $1300's!

What is astonishing is the silence of far too many mining company CEO's while their stock value is getting systematically destroyed. A bounce in the metals should bring some valued based buying into the mining shares particularly at these levels.

★ ★ ★ *DAN NORCINI* / **LINK**

Click on the images (right) to take a fascinating look at a graphical representation of Bill Gross' last 5 investment letters.

CLICK TO ENLARGE

SOURCE: WSJ

CLICK TO ENLARGE

SOURCE: ONLINE MBA (VIA BARRY RITHOLTZ)

CLICK TO LISTEN

If you want to hear about $12,000 Gold? Click on Robin Griffiths, right.

Want to hear about $30,000 gold? Click on Jim Rickards, left.

There's plenty more from both interviews including detailed comments on Bill Gross' strategy and, of course the soaring silver price

CLICK TO LISTEN

CLICK TO WATCH

On the left, Eric Sprott. On the right, Max Keiser. Yes, you have to listen to Max, but as a reward you get to listen to Eric. It's a fair trade I think...

Some people have way too much time on their hands as evidenced by this incredibly detailed parody site.

The architects of this have really gone above and beyond the call...

CLICK TO CHECK OUT THE GALACTIC EMPIRE TIMES

Hmmm…

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