THINGS THAT MAKE YOU GO *Hmmm...*

A walk around the fringes of finance

"In a time of deceit telling the truth is a revolutionary act."

– GEORGE ORWELL

"That men do not learn very much from the lessons of history is the most important of all the lessons that history has to teach."

– Aldous Huxley, *Collected Essays*

"Letting the days go by, let the water hold me down
Letting the days go by, water flowing underground
Into the blue again, after the money's gone
Once in a lifetime, water flowing underground

Same as it ever was, same as it ever was, same as it ever was
Same as it ever was, same as it ever was, same as it ever was
Same as it ever was, same as it ever was"

– Talking Heads, *Once In A Lifetime*

Back in the dog days of October 2008, The Consumerist published a piece on its website called **'12 Signs You're Addicted to Debt'**. This public-spirited piece was designed to help people recognize an addiction to debt that might topple them over the edge of the abyss in the new, post-Lehman world of fear and desperation. You remember that world, right? Lehman had just collapsed? The world was about to spiral into a nightmare the likes of which hadn't been seen in a generation? You remember, surely? The 'GFC'? The 'Great Recession'? No? But we all said it was a watershed that would change our behaviour for decades to come. We all swore never to forget how close we came; how terrified we all were.

Ah well, let me refresh your memories - it was, after all, almost three long years and trillions in stimulus dollars ago.

Back then, we all promised each other that if we could just make it through the storm we'd be different. We'd downsize, rid ourselves of the debt, borrow less, spend less, save more. We didn't need that extra flat-screen TV or that jet ski. Just get us through and we'll find financial religion.

> *(Minnesota Public Radio):...some Minnesota dealers and manufactures say business seems to be turning around this year.*
>
> *"This year has been incredible," said Matt Ness, general manager of the Crystal Pierz Marine store in Shakopee. "As of the end of last month, we were almost exactly double the sales of the year before. So, it's a nice change."*
>
> *Ness said the used boat market has been pretty strong, but said he was budgeted to be up about 40 percent on new boat sales. He said his biggest challenge now is getting them in stock.*
>
> *"They can't seem to make them fast enough for us. So, that helps our used business," he said.*

So, in Minnesota at least, the market for buying boats seems to be roaring again, but what about other signs of a return to the days of conspicuous consumption?

Well, if you want austerity then surely the place to head for is Scotland - the country rumoured to have been the birthplace of copper wire which, apparently, was first produced by two Scotsmen fighting over a penny:

> *(The Herald): As wages stagnate, growth stutters and high street retailers continue to report dismal sales, there is one sector of the economy which is booming – the luxury goods market.*
>
> *Bling is king once more, it seems.*
>
> *Fuelled in part by the promotion of the brand by style icon Alexa Chung, luxury leather goods manufacturer Mulberry yesterday announced a 69% rise in revenue to £121.6 million and a mouth-watering 358% hike in pre-tax profits to £23.3m.*
>
> *The Somerset-based company, which has branches in Glasgow and Edinburgh, opened*

nine new stores around the globe in the year to March and over the course of the next 10 months will open six more, consolidating its already strong presence in the Far East and the all-important Chinese market.

Among the high-end products driving those extraordinary figures is The Alexa, a satchel-cum-handbag named for and inspired by television presenter Alexa Chung. Prices vary, but don't expect much change from £800 for the basic model. The cost of the limited edition Oak Ostrich bag, meanwhile, is £3750.

£800? For a handbag? In SCOTLAND?

Older readers may well remember the Studebaker Scotsman (pictured left). The Scotsman's name was based on the humorously offensive stereotype of Scottish frugality - the cars being built for function with minimal luxury.

(Wikipedia): ...over 9,000 were sold—not only to frugal or low-budget customers but also to wealthy notables such as former First Lady Eleanor Roosevelt. For, despite its austerity, the Scotsman delivered exceptional value and economy.

Ah..... there's the magic word; 'austerity'. Austerity is something the Scots do better than most so the thought of an £800 handbag in a country where the average person's idea of 'extravagance' is ordering TWO fried Mars Bars is simply incredible. (Before I get angry emails from disgruntled Scots, I'm teasing. I would like it to be placed firmly on the record that I LOVE both Scotland and the Scots and, as a keen golfer, having been there countless times, I can state unequivocally that, in glorious weather, there truly is no finer place on Earth..... now, about that weather.....).

But I digress.

Conspicuous consumption is done extremely well here in Asia and, as the wealthy in China, Malaysia and here in Singapore, grow ever-wealthier, it is hardly a surprise to read stories of the familiar pattern of decadence emerging:

(Red Luxury): While the rest of the world faced some kind of financial crisis, China's love affair with ultra-luxury cars is stronger than ever.

The number of super luxury cars sold in the first nine months of 2010 was pretty staggering.

China became the second-biggest market for Italian luxury sports car maker Lamborghini. The company sold 178 sports cars to Chinese customers in the first three quarters, a 200 percent growth from a year earlier. Lamborghini expects to sell 200 cars in 2010, *up from the 80 cars it sold in 2009. China's combined super-sports car market totaled less than 1,000 cars sold a year.*

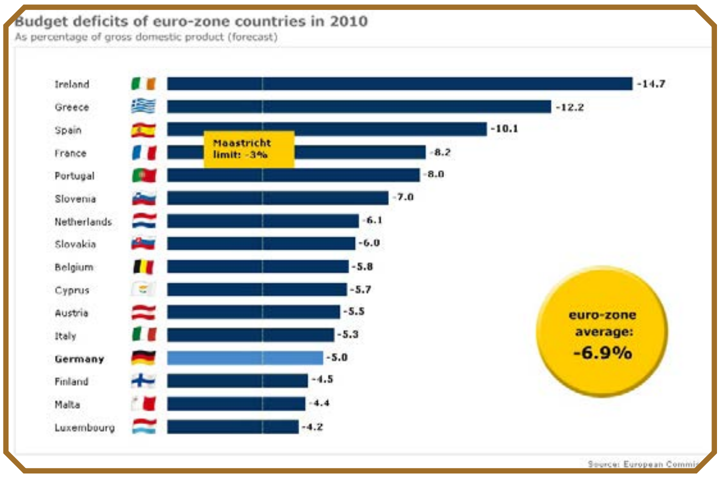
The company hopes to have 20 showrooms in China by the end of 2011 and offer more limited editions. It launched a limited edition of the Murcielago LP 670-4 SuperVeloce at the Beijing Auto Show this past April. The 10 cars, with starting prices of 8 million yuan ($1.2 million), sold out within 10 days.

The recent IPO for Milan Station in HK (which was 2,000 times oversubscribed) is to be followed in short order by Jimmy Choo and Coach as luxury brands look to cash in on the shunning of austerity in the East. But last Friday Prada's Hong Kong IPO was priced at the bottom of its range showing that perhaps, even in Asia, consumption MAY be on the wane.

But let's get back to that list. In the interests of brevity, I've cut the original twelve signs down to ten, but that should be plenty to ascertain whether the world is addicted to debt (though it may make this introduction may be a little longer than usual). Let's get started, shall we?

10. UNCLEAR ABOUT YOUR FINANCES

Not knowing account balances, monthly expenses, loan interest rates, fees, fines, or contractual obligations.



CLICK TO ENLARGE

SOURCE: DER SPIEGEL

Beginning with the farcical book-keeping efforts of the Greek government, this symptom is one that has become more prevalent in the past 18 months and, with the smoke swirling around the supposed accounting irregularities in the Spanish regional governments, we can look for accounting 'surprises' to be commonplace as things begin to unravel more quickly and a wave of new politicians get swept into power with one aim - to stay in power. What's the easiest way going to be? Why, blame the current problems on the previous administration and, if they happen to be kind enough to leave a few unaccounted-for items in the bottom drawer then now is not the time for silence.

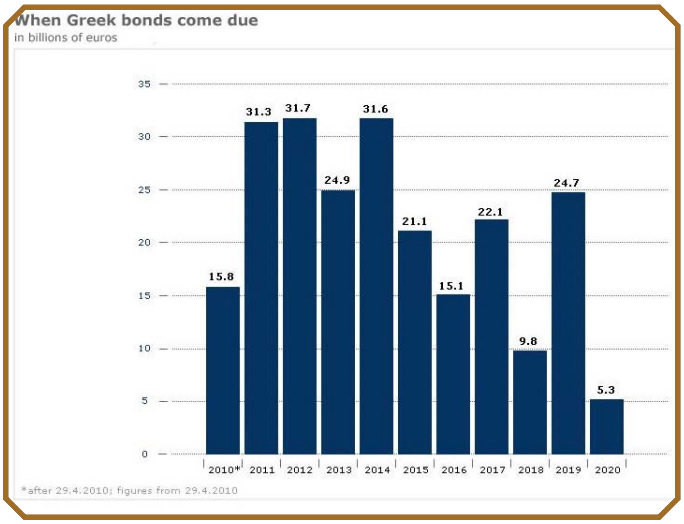
As the chart (above) shows, the countries of the Eurozone are *all* running budget deficits larger than the 3% mandated by the Maastricht Treaty - in fact, the AVERAGE is now over twice that level.

Check.

9. ALWAYS "BORROWING" STUFF

Such as books, pens, or small amounts of money from friends and others, and failing to return them.

Well, not so much books, pens or small amounts of money from friends but rather HUGE amounts of money from former friends who fortunately happen to have a large vested interest in lending to you because they hold so many of your IOUs now that if they pull the plug on you, it will end up costing them any chance of getting *something* back.



CLICK TO ENLARGE

SOURCE: DER SPIEGEL

Greece, again, is the poster child for this particular problem as the haggling over the next tranche of the bailout intensifies. On May 2, 2010, a €110 billion loan facility is agreed for Greece by the IMF and the EU. Eight days later the €750 billion EFSF is established. On May 18, 2010, Greece stuck out its hand and 'borrowed' a small amount of money from various vested interests - €14.5 billion to be precise. This loan was to enable Greece to pay off other creditors in the form of maturing debt.

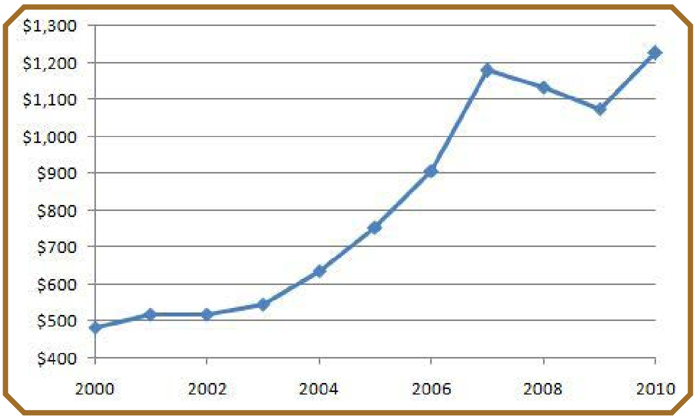
Check

8. POOR SAVING HABITS

Not planning for taxes, retirement or other not-recurring but predictable items, and then feeling surprised when they come due; a "live for today, don't worry about tomorrow" attitude."

Well THIS one's almost too easy. I almost feel like it's cheating to even bother with it, but we're working our way up the list so..... Where do we begin with unfunded liabilities?

I tell you what, let's tackle this another way. We've discussed at length in these pages the roughly $60 trillion in debt the US would have on its balance sheet if it included its unfunded liabilities (estimates vary - I'm going to go with that figure though readers may well have their own in mind), and we know that many other countries are hardly any better so let's try to accentuate the positive and to do that, where better to head than Down Under.



SOURCE: GOOGLE

When it was introduced in 1992 by Paul Keating's Labor government, the Superannuation Guarantee' was widely opposed - mainly by small business groups who felt that the obligatory 3% contribution they had to make for each salaried worker was excessive. Since then, however, the contribution has increased to 9% and there are now roughly 300,000 Superannuation Funds active in Australia - 362 of which have over $50 million in assets. At the end of March 2011, according to APRA, the total of Superannuation assets in Australia was A$1.36 trillion - an 8.6% increase on the total from 2010 (chart, previous page). Unfunded liabilities clearly don't NEED to be such a big problem.

So, while Australia may be a shining beacon (along with Norway and a few others), I'm afraid, on the whole, we are going to have to give this one a big, fat, ~~Greek wedding~~ red tick.

Check.

7. HARD TO MAKE BASIC FINANCIAL OBLIGATIONS

or personal ones, and/or an inordinate sense of accomplishment when such obligations are met.

As the wrangling over the Greek bailout funds continues and the Germans back down from the hardline approach they have been taking of late, the ability of the collection of islands in the Aegean Sea to pay their bills increases. Funnily enough, Nicolas Sarkozy has been making a lot of noise in the past weeks and his profile in the negotiations has risen dramatically as Angela Merkel's tough stance has softened. I wonder what the reason could possibly be for these two to come together to the point where they have their own celebrity couple name in the mould of Brangelina or TomKat: Merkozy? Let's take a look at the Wall Street Journal in our search for clues:

> *(WSJ): Germany and France have suggested in recent days that rescuing Greece may be necessary to safeguard the euro zone, but both countries may have a more pressing motivation in the move—protecting their own banks.*
>
> *German and French banks carry a combined $119 billion in exposure to Greek borrowers alone and more than $900 billion to Greece and other countries on the euro-zone's vulnerable periphery: Portugal, Ireland and Spain.*
>
> *Together, France and Germany's banking sectors account for roughly half of all European banks' exposure to those countries. Nearly half of the outstanding debt is with Spain, according to data from the Bank for International Settlements. The data include government bonds, corporate debt and loans to individuals.*

Same as it ever was, same as it ever was.....

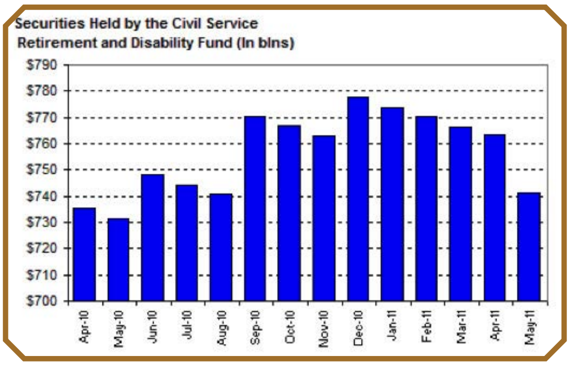
While we're on the subject of disproportionate senses of accomplishment, in little more than a few weeks we are going to get to a front row seat at the theatre of the absurd that will be the raising of the debt ceiling. The sense of accomplishment that people like John Boehner, Timothy Geithner, Nancy Pelosi and Barack Obama will undoubtedly try to cram down the throats of a bewildered populace will be quite the sight to see I'm sure. Of course, we haven't heard much about the debt ceiling for a while, but rest assured, it's coming back to a front page near you - soon.

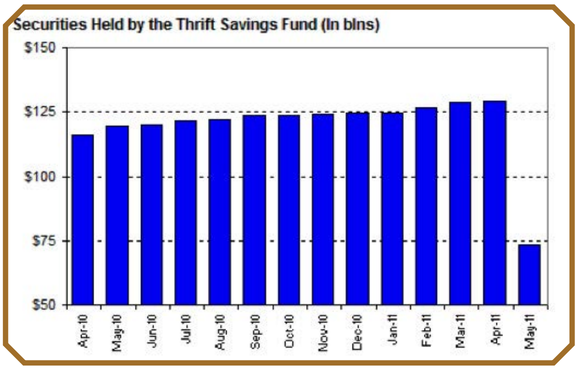
Check.

6. LIVING IN DRAMA ABOUT YOUR DOLLAR

Using one credit card to pay another; bouncing checks; always having a financial crisis to contend with.

I'll leave this one in the capable hands of Stone McCarthy (via ZeroHedge):





SOURCE: ZEROHEDGE

(ZeroHedge):in a nutshell, since the debt ceiling breach in mid May, Tim Geithner has replaced one IOU (that of the Fed) with another (that of the Treasury) in the G Fund to the tune of $57 billion, and in the CSRDF of about $22 billion. In other words, retirement funds have seen a "disinvestment" of nearly $80 billion in the past 3 weeks just to make space for further funding of bloated government, defense spending, and healthcare benefits. But don't worry: Tim promises it shall all be well.

... The following chart (left, top) shows non-marketable securities held by the CSRDF each month since April of last year.

In May, those holdings declined $21.8 billion. Non-marketable holdings by the CSDRF are volatile on a monthly basis, but that decline is larger than average. In reality, there isn't that much mystery about the room created by redeeming securities.

... The change in the balance of securities held by the Thrift Savings Fund was more telling...

The balance in the G-fund was $73.3 billion as of May 31, down $56.0 billion from the end of April.

Any objections? No?

Check.

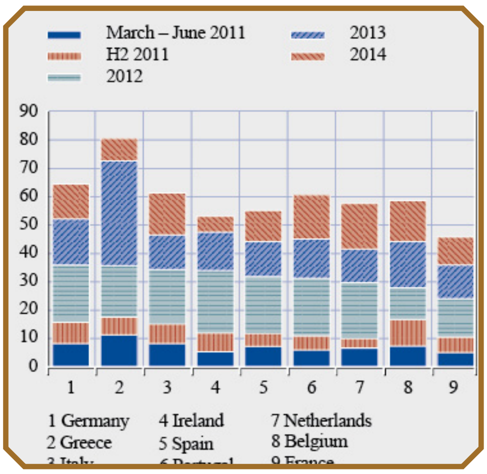
5. LIVING ON THE EDGE

Living paycheck to paycheck; taking risks with health and car insurance coverage; writing checks hoping money will appear to cover them.

Is it just me or are they getting easier as we count them down?

Risks with health insurance I think we've covered, living paycheck to paycheck? Well let's take a look at the upcoming financing needs of various governments over the next couple of years courtesy of those bastions of financial propriety, the ECB (chart, left).

As you can see from the chart, apart from France, the other nine members of the Eurozone represented here need to roll over at

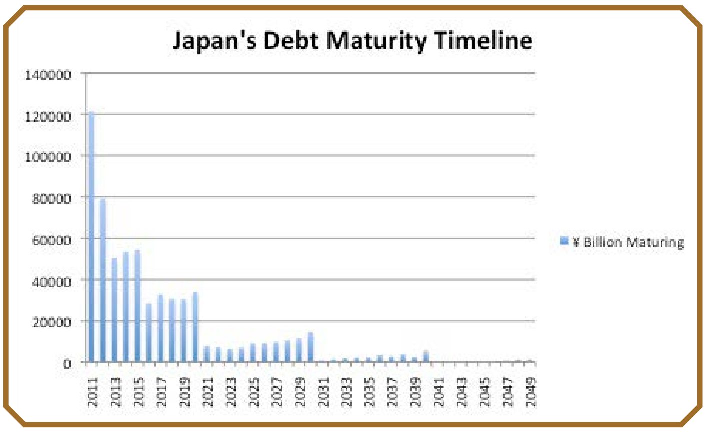


CLICK TO ENLARGE

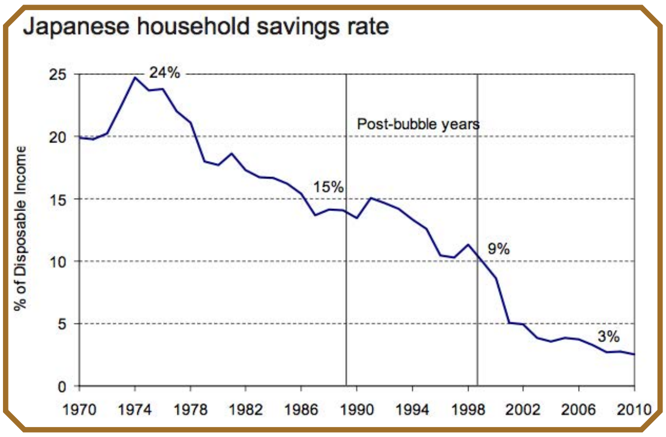
SOURCE: ECB

least 50% of their debt in the next three years with our old friends Greece the standouts with 80% maturing. With Greek 2-year yields up around 25% and 10-year around 18% it's no wonder the empty cup is being rattled on the sidewalks of Brussels.

Japan, however, is a different animal altogether. With the world's largest debt-to-GDP ratio courtesy of two decades of domestic funding, Japan is rapidly running out of room and time to pay its debts as a falling savings rate threatens to collide with an extremely short-biased debt maturity profile.



CLICK TO ENLARGE SOURCE: CQCA



SOURCE: EDWARD CHANCELLOR

I think it's fairly easy to call this one.

Check.

4. INORDINATELY INHIBITED AND EMBARRASSED

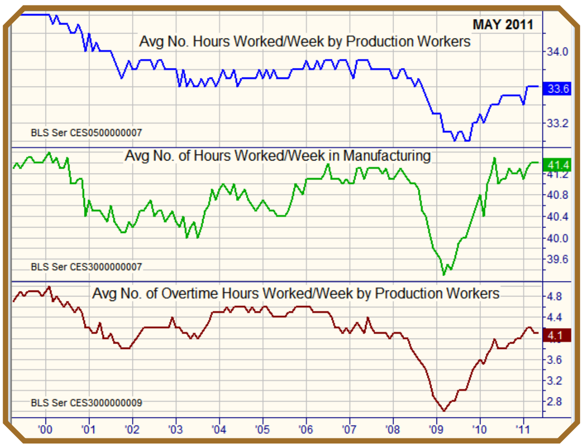
in what should be a normal discussion of money.

Embarrassed? Er.... No. Most of them sure as hell SHOULD be, but they're not.

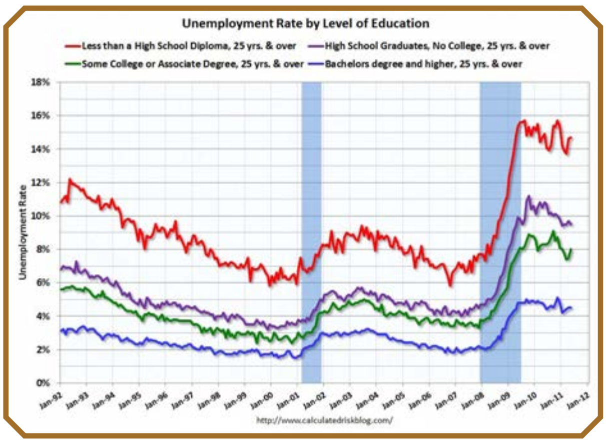
Fail.

3. OVERWORKING OR UNDEREARNING

Working extra hours to earn money to pay creditors; using time inefficiently; taking jobs below your skill and education level.



CLICK TO ENLARGE SOURCE: ECONOMIC DATA CHARTS



CLICK TO ENLARGE SOURCE: CALCULATED RISK

On the left, average hours worked and number of hours of overtime worked in the US. On the right, the unemployment rate by education level.

Check.

2. RELUCTANT TO CARE AND VALUE YOURSELF

Living in self-imposed deprivation; denying your basic needs in order to pay your creditors.

Well THIS one, I'm afraid, gets a big, fat 'No'.

Self-imposed deprivation is something that nobody seems to want to make a committed run at. Of course, we've all heard the word 'Austerity' being bandied around (remember those other buzz-words, 'Goldilocks', 'Green Shoots' and 'Contained'?), but it tends, for the most part, to be anything but self-imposed.

Of course we all know about the riots in Athens' Syntagma Square:

(NDTV): Hundreds of protesters clashed with riot police in central Athens earlier on Wednesday as the main square was blanketed outside Parliament with tear gas during a previously peaceful rally by more than 25,000 people.

Wednesday's riots broke out and lasted several hours after large crowds gathered outside Parliament and as unions held a general strike to protest against the new austerity measures.

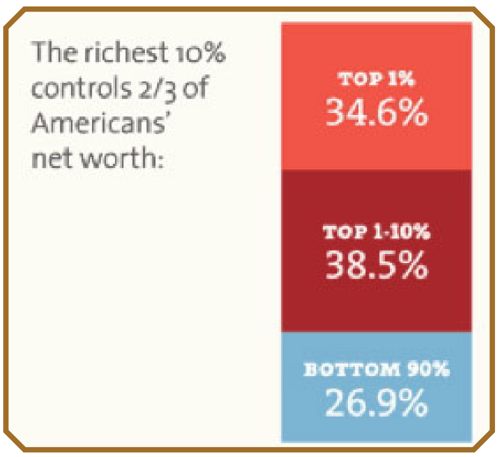
At least 11 people were injured and another 20 people were detained, according to police, as protesters responded to tear gas by hurling stones and firebombs.

...Papandreou has suffered plummeting approval ratings and an open revolt from within his own PASOK Socialist party over the new austerity bill, which is set to increase taxes and cut spending until 2015 - two years beyond the current government's mandate.

The public begin to wake up from their torpor every now and then and demand that things change but, when the first cuts of any kind begin to bite, they are out in force protesting. Witness the UK where a year ago the Tory Party swept back into Downing Street on a platform of reform and yes, you guessed it, 'austerity':

(UK Guardian): The leader of the largest public sector union promises to mount the most sustained campaign of industrial action the country has seen since the general strike of 1926, vowing not to back down until the government has dropped its controversial pension changes.

Dave Prentis, general secretary of Unison – which has 1.4 million members employed by the state – described plans for waves of strike action, with public services shut down on a daily basis, rolling from one region to the next and from sector to sector.



SOURCE: PHOENIX CAPITAL

> *He said there was growing anger over a public sector pay freeze that could trigger more disputes further down the line and that the changes would unfairly penalise women, who form the majority of low-paid public sector workers. "It will be the biggest since the general strike. It won't be the miners' strike. We are going to win."*

Back in March, in a post on ZeroHedge, Phoenix Capital wondered why riots hadn't hit the US - yet:

> *While many believe the US is immune to this kind of disorder, ZeroHedge recently noted that the US has a similar wealth gap to most emerging markets:*
>
> *The reasons the US hasn't been gripped by riots are the following:*
>
> *1) The security nets (food stamps, welfare, etc) continue to keep lower income Americans afloat… for now.*
>
> *2) Food in the US is so processed that increases in agricultural prices don't pass through as rapidly into higher food prices.*
>
> *Neither of this will last much longer. Regarding #1, the US Government is broke. In fact they're so broke than an aid to Nancy Pelosi (who I can't stand) has revealed that the US Government might actually shut down at some point in the near future.*

Fail.

1. HOPING THAT A WHITE KNIGHT IS JUST GOING TO SWOOP IN AND SAVE YOUR BROKE ASS

> *A feeling or hope that someone will take care of you if necessary, so that you won't really get into serious financial trouble, that there will always be someone you can turn to.*

Well, it strikes me that pretty much EVERYBODY is guilty of this particular mistake. From the politicians who continually kick the can down the road in the hope that their problem becomes somebody else's, to the policy makers who aid and abet them by bending the rules (yes, I'm talking to you FASB), to the Central Bankers who go way outside their mandates all the way down to the vast majority of the public who silently accept the soothing words of 'the powers-that-be' and cling to the hope that all the problems will be magically fixed by elected officialdom.

Everybody has a vested interest in believing that 'someone' will fix the problems.

Unfortunately, we ALL have to fix the problems - and THAT is going to be a painful, painful process I'm afraid.

Check.

In closing, let's return to The Consumerist article and find out just how we did (and remember, the Consumerist list was 12-strong whereas we only chose 10):

> *How did you do? Remember, these are all a question of degree. If you can say definitely, yes, that's me, to seven or more of these, you could have a serious problem.*

Hmmm.....

Well, my sincere apologies for the longer-than-usual introduction. Sometimes you just get carried away with these things, but if you've made it this far, I can give you the good news that you've now arrived at the main course, and today we are naturally focusing fairly heavily on the goings on in Europe and, particularly, Greece as the discussions continue in the search to find a solution to what, let's face it, is an impossible problem. Perhaps, instead of trying to find more money to pour into the black hole in Athens, it would be simpler to try and repeal the laws of mathematics.

Greece's parliament seem to realise this and today we read how they are playing brinkmanship with the rest of the world. Meanwhile, Jean-Claude Juncker warns of contagion (really, J-C? NOW?), Edmund Conway explains why it's Germany and not Greece who should leave the Euro and we hear from the protestors in Syntagma Square where temperatures are reaching boiling point.

Elsewhere, Russia continues to cut its exposure to US debt dramatically, but plans to set 8 nuclear power plants afloat on the Arctic Ocean (yeah, you read that right), Moody's threat to downgrade Italy's debt comes out of the blue at an inopportune time and Canada's Globe & Mail attempts to play referee in the bout between Carson Block and Sino-Forest - and it's decision looks like bad news for John Paulson.

Spanish borrowing costs breach a key level, we head to China's Three Gorges Dam to take a look at a record-breaking drought and in a late-breaking story, Der Spiegel reports that the deal thrashed out by Merkozy is now off the table - a story that has already been denied.

In our charts section we try to put some perspective around the hysteria surrounding the nuclear power debate courtesy of The Economist, the Guardian helps us understand where all the Greek debt is hiding on banks' balance sheets (thanks Scott!) and Reggie Middleton shares some rather frightening charts on What else? European balance sheets.

Finally, we hear a no-holds barred interview with Nigel Farage, watch Robert Reich draw on a whiteboard and, in two standout videos, we dig into the murky history of the Exchange Stabilization Fund courtesy of Mike Krieger. You won't want to miss these.

Phew.....

Contents

20 June 2011

The Gonnie, Gonnie Banks

#	Bank	Assets ($m)	Deposits ($m)	Cost ($m)
46	McIntosh State Bank, Jackson, GA	339.9	324.4	80.0
47	First Commercial Bank of Tampa Bay, Tampa, FL	98.6	92.6	28.5
	Total Cost to FDIC Deposit Insurance Fund			**108.5**

Rarely have the goings on of the Greek parliament commanded so much international attention. Once a complete irrelevance, its machinations, and in particular its apparent refusal to accept austerity, have assumed centre stage.

Like a slow-motion car crash, all eyes are fixed in horror on the political chaos into which Greece is descending.

So desperate has the nation's plight become that even economic suicide seems preferable to the austerity European neighbours seem minded, brutally, to impose upon it.

For the birthplace of European civilisation and modern democracy to boot, there could hardly be a more ignominious descent.

If the tax rises, spending cuts and state sell-offs of the ruling government's medium term financial strategy (MTFS) aren't approved, then assuming international policymakers are as good as their word, all future IMF/eurozone loans will cease.

In such circumstances, sovereign debt default would follow within days, and government, unable to pay its bills, would grind to a halt.

Given Greece's comparatively recent history of junta rule, it would surely only be a matter of time before the military stepped into the ensuing political vacuum.

Unthinkable for an apparently advanced economy? Well, perhaps, but the unthinkable has had a nasty habit of becoming true these past four years.

Whatever the eventual outcome, we are now well past the point where matters are capable of happy resolution. What's happening is plainly a tragedy for Greece, but just how serious is it for the rest of the eurozone?

...You'd have thought that Athens has virtually no cards left to play, yet the threat its travails pose to the eurozone as a whole gives Greece something of a whip hand. In the game of brinkmanship currently being played out in Athens and Brussels, Greece is not entirely without negotiating power.

Give us the money, the Greeks can say, or we'll pull the whole house down with us.

★ ★ ★ *UK DAILY TELEGRAPH* / **LINK**

Russia will likely continue lowering its U.S. debt holdings as Washington struggles to contain a budget deficit and bolster a tepid economic recovery, a top aide to President Dmitry Medvedev said Saturday.

"The share of our portfolio in U.S. instruments has gone down and probably will go down further," said Arkady Dvorkovich, chief economic aide to the president, told Dow Jones in an interview on the sidelines of the St. Petersburg International Economic Forum.

Russian holdings of U.S. Treasury securities fell to $125.4 billion in April 2011 from $176.3 billion in October 2010, Treasury Department data showed.

CLICK TO ENLARGE

SOURCE: ZEROHEDGE

Asked if U.S. debt was as solid an investment now as it was 10 years ago, Mr. Dvorkovich said: "On an absolute basis, yes. On a relative basis, compared to other investments, of course not."

"When we take decisions and compare, we're not thinking in absolute terms," he said.

Russia's financial reserves—which stood at $528 billion as of June 10—are the world's third largest, after China and Japan's. As of May, according to Russia's central bank, 47% of reserves were in dollars and 41% in euros, compared with 45.2% in dollars and 43.1% in euros on Jan. 1.

The central bank recently diversified the stash to include the Canadian dollar, which makes up 1% of the total, and plans to put 0.8% into the Australian dollar starting in September.

WSJ / LINK

Moody's has threatened to cut Italy's credit ratings on concerns over a possible rise in eurozone interest rates may derail the country's fragile economic recovery, raising more fears of contagion from the Greek debt crisis.

Moody's announcement placing Italy's Aa2 rating on review for downgrade of the next 90 days came after European markets had closed for the weekend.

The agency said structural weaknesses such as a rigid labor market posed a challenge to growth.

Italy's potential downgrade highlights the risks facing indebted European countries as they struggle to avoid a Greece-style crisis.

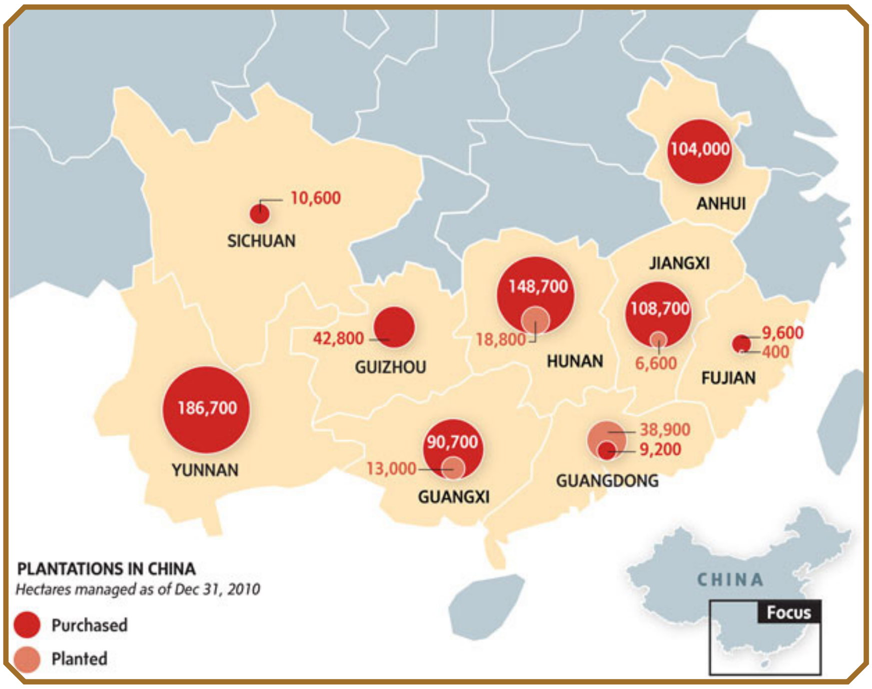
Markets are worried that Italy, like Greece, will struggle to make the necessary spending cuts and other fiscal measures needed to cut its debts to affordable levels.

"The Moody's news on Italy reinforces the ECB's concern about the prospect of contagion. And contagion should not happen," said Greg Salvaggio, senior vice president at Tempus Consulting in Washington.

"As a result, I think there's a going to be a package put together over the weekend, which is going to effectively offer Greece another lifeline."

Moody's analyst Alexander Kockerbeck told Reuters: "Italy has had structural impediments to growth for some time. However, today, these challenges coexist with a scenario of rising interest rates and fragile market sentiment."

UK DAILY TELEGRAPH / LINK



CLICK TO ENLARGE

SOURCE: GLOBE & MAIL

Embattled Sino-Forest Corp., once Canada's biggest publicly-traded timber company, appears to have substantially overstated the size and value of its forestry holdings in China's Yunnan province, according to figures provided by senior forestry officials and a key business partner there.

During two weeks of on-the-ground reporting that included interviews with Chinese government officials, forestry experts, local business operators and brokers, The Globe and Mail uncovered a number of glaring inconsistencies that raise doubts about the company's public statements regarding the value of the assets that lie at the centre of the company's core business of buying and selling Chinese timber rights.

Once a stock market favourite, Sino-Forest has had a spectacular fall since a short seller's report, published June 2, alleged that the company engaged in large-scale fraud and is inflating the value of its timber assets. The shares are down 82 per cent since the release of that report, written by Carson Block of Muddy Waters LLC, representing a paper loss of $3.7-billion to investors in little more than two weeks.

The company has denied all wrongdoing and the board of directors formed a committee to probe the allegations raised by Muddy Waters. The investigation is expected to last months and has begun with representatives from PricewaterhouseCoopers checking Sino-Forest's bank accounts to verify the more than $1-billion (U.S.) the company says it holds in cash at Chinese banks and other financial institutions.

The Globe's investigation raises particularly hard questions about a key agreement in March, 2007, that Sino-Forest says gave it the right to buy timber rights for up to 200,000 hectares of forest in Yunnan over a 10-year period for between $700-million (U.S.) and $1.4-billion. The trees were to be bought through a series of agreements with an entity called Gengma Dai and Wa Tribes Autonomous Region Forestry Co. Ltd., also known as Gengma Forestry.

The company says it has fulfilled virtually all of the agreement with Gengma and now owns more than 200,000 hectares in Yunnan.

But officials with Gengma Forestry, including the chairman, dispute the company's account of the deal, telling The Globe and Mail that the actual numbers are much smaller.

GLOBE AND MAIL / **LINK**

Russia is putting the finishing touches on the first of 8 new massive floating nuclear power plants. It plans to use the behemoth energy generators in the Arctic ocean to power the search for new oil and natural gas deposits. The reactors are built on giant platforms that resemble huge cargo ships, each one carrying a staggering $336 million price tag.

With its new power plants, Russia hopes to secure as much of the unclaimed Arctic resources as possible, further cementing its position as a major player in world energy resources.

The country is also interested in selling or leasing the power plants to other nations, and has already received interest from China, Indonesia, and Algeria. Currently, only one of the planned fleet exists, so any deals would still be many months or years from being struck.

... Imagine turning on the news to learn that a rogue military group has hijacked a nuclear device the size of a small town? Now that's scary

Japan's recent earthquake, tsunami, and subsequent reactor meltdown has given us a small taste of the ever-present dangers surrounding nuclear power. Some countries, like Germany, took the deadly event as a cue to lessen their dependence on the clean but volatile energy source, even going so far as to eliminate their entire nuclear power plant network over the next decade.

Despite the many apparent dangers that a floating nuclear plant could face (there are literally too many to list), the Russian energy community seems rather confident with its plan. "There's no need to worry about our technology. We have 50 years experience operating nuclear-powered icebreakers in extreme conditions," says a spokesman.

But the concerns with the new plants aren't focused on whether the Russian nuclear operators know what they're doing, it's the unpredictable nature of the Arctic ocean, and the thought of the huge ships falling into the wrong hands, that has people up in arms. Imagine turning on the news to learn that a rogue military group has hijacked a nuclear device the size of a small town? Now that's scary.

YAHOO / **LINK**

Contagion from the Greek debt crisis could spread to at least five other European countries - including Belgium or even Italy - if it is not cautiously managed, the head of the eurozone group warned Saturday.

Jean-Claude Juncker told the German daily Sueddeutsche Zeitung that demanding that private creditors contribute to the next Greek bailout package could be considered a "default" by ratings agencies - and that would have extreme consequences for Europe as a whole.

Juncker, the prime minister of Luxembourg who also chairs the 17 eurozone finance ministers, was quoted as saying that a Greek bankruptcy "could prove contagious for Portugal and Ireland, and then also for Belgium and Italy because of their high debt burden, even before Spain."

"We are playing with the fire," he told the paper.

His comments came a day after Moody's warned it may reduce Italy's Aa2 credit rating over concerns about the country's ability to increase growth and reduce its public debt, one of the highest in Europe. The warning followed a similar move by Standard and Poor's, which cut its ratings outlook for Italy's debt from stable to negative.

On Friday, German Chancellor Angela Merkel softened her government's insistence on having private creditors share part of the Greek burden following a meeting with French President Nicolas Sarkozy in Berlin, with both leaders agreeing that the participation should be "voluntary."

Ratings agencies as well as the European Central Bank have warned that forcing bond holders to accept losses or give Greece extra years to repay its debt would likely be considered a partial default by Greece that could spread panic on financial markets.

Juncker stressed that a debt restructuring would ravage Greek banks, which hold a large amount of their country's debt - some €80 billion - ultimately requiring yet another bailout for the banks.

"Everything is becoming yet more expensive because we are including private creditors due to domestic political considerations in Germany," Sueddeutsche Zeitung quoted him as saying.

ATHENS NEWS / **LINK**

Germany - not Greece - has 'destabilised the euro area and is one of the biggest road-blocks to its ultimate recovery.

Imagine you're in charge of Europe. Not, I grant you, the opportunity of a lifetime, but let's narrow down the job description to one specific question. The only way you can save the single currency is to eject one country from the eurozone. So, who is it to be?

You might be tempted this weekend to say Greece, for understandable reasons. Not only is it facing almost certain default, it has been a constant thorn in the side of the euro – spending too much, saving too little, and displaying the kind of corporate and statistical honesty you could only hope to match by placing Bernie Madoff in charge of FIFA.

... The eurozone has been pulling itself apart for years; removing Greece will not change that

But Greece is not the word. Stricken though it is, lancing that particular boil won't help. Greece's issues have always been a manifestation of a far deeper problem with the currency, one that policymakers still seem unable to confront. The eurozone has been pulling itself apart for years; removing Greece will not change that.

However there is another eurozone member that sticks out like a sore thumb. It has run its economy just as, if not even more, recklessly than the Mediterranean brothers, has single-handedly destabilised the euro area for the best part of a decade and is one of the biggest road-blocks to its ultimate recovery. That country is Germany.

This might sound counter-intuitive. Germany, after all, has an enormous current account surplus; it honed its productivity and competitiveness over the past decade; where Greece borrowed it saved, where Spain splurged it cut, where Ireland inflated it deflated. But that is precisely the problem. Were Keynes around today he would have identified the issue instantly: in any monetary system, nursing a mammoth current account surplus can be just as destabilising as a deficit.

It's easy to blame Greece and its incontinent cousins for their over-spending – and certainly Athens is guilty of fiddling its fiscal figures and failing to collect taxes. But its twin deficits are also a consequence of the low interest rates which were largely determined by the way Germany ran its economy.

EDMUND CONWAY / **LINK**

The obvious difference between Ireland and Spain is that our banking system has incurred huge losses, mostly on property lending in the 2000s. And that Ireland has taken major steps to support the banking sector. These have included the extraordinary State guarantee in September 2008, the subsequent recapitalisation of banks as losses were revealed, the establishment of the National Asset Management Agency (NAMA) to objectively value and remove certain property loans from the banking system, domestic stress tests including a €30m stress testing exercise in Q1, 2011 undertaken by BlackRock, Barclays Capital and the Boston Consulting Group overseen by external officials from the ECB and IMF, and by our own Central Bank of Ireland. The result of all of this is that the State will borrow an estimated €70bn to cover losses in the banks so that Ireland preserves a banking system grounded in existing banks.

... in Spain at least 50,000 such mortgages were being reportedly handed out each year during the boom by just one subprime provider, CreditServices whose president thinks that one third of all Spanish mortgages (including subprime) will be in default in 2011

What about Spain's banks? One Spanish bank you hear a lot about here is Santander which bought AIB's Bank Zachodni unit in Poland recently and which also bought the Abbey bank/building society in the UK. Banks on the acquisition trail during the present financial crisis certainly don't indicate weakness. And whilst Ireland has been internationally lambasted for allowing mortgage credit to spiral in the 2000s, and changing rules to allow certain bank assets to be used to access credit on international markets which in turn stoked the credit boom even further, we are bored to death with tales about how the Spanish Central Bank intervened in that country's banking sector to ensure the banks were sufficiently capitalised to weather any downturn. So the impression might be that Spanish banks are just fine.

Well take a look at the dark side of Spanish banking in this report on Spanish sub-prime mortgages in 2007 – 120% mortgages, no deposit, three month work history, sounds familiar in Ireland, in Spain at least 50,000 such mortgages were being reportedly handed out each year during the boom by just one subprime provider, CreditServices whose president thinks that one third of all Spanish mortgages (including subprime) will be in default in 2011. In Ireland some 50-60,000 of the 790,000 mortgages are in arrears by more than 90 days and a further 30,000 have been restructured. We have a draconian bankruptcy regime and extensive mortgage company forbearance measures that sees less than 500 repossessions each year. Spain is not at all compassionate when it comes to such matters.

Last July 2010, the Committee of European Banking Supervisors (CEBS) published its now discredited stress tests; remember these were the stress tests that gave Bank of Ireland and AIB clean bills of health, despite recent stress tests identifying €5.2bn and €13.3bn additional capital needs respectively. Of the 91 banks stress tested, seven failed and five of these were Spanish – Diada, Espiga, Banca Civica, Unnim and Cajasur (in fact 27 of the 91 banks stress tested were Spanish). If it weren't for the IMF and EU bailout,Ireland might never have confronted the true level of losses as uncovered by the latest stress testing. But if both ofIreland's main banks could pass the stress tests then and need nearly €20bn now, what does that say for the Spanish banking sector now?

NAMA WINE LAKE / **LINK**

If the water levels drop any lower in the Three Gorges Dam, the power will shut off. But this year's scorching, record-breaking drought across six provinces in Southern China means that the Yangtze River is in desperate need of answer the Three Gorges could have stored in its reserves.

On May 18, an executive meeting by the State Council, China's cabinet, attempted to address a more unified response to water management problems in the region. The meeting resulted in the "Follow-Up Work on the Three Gorges Dam" framework, in which the tie between the drought and the expansion of hydropower were discussed. Aside from drawing relocation and resettlement plans leftover from the construction of the Three Gorges Dam, the meeting also put out new objectives in its operations management system.

Government officials from various provinces have long faced the difficulties surrounding water use and conservation due to exploitation of water resources. At the Yangtze Water Forum held in April, questions were raised over the rapid construction of hydropower projects.

Wan Bentai, chief engineer of the Ministry of Environmental Protection, said that the South-North Water Transfer project could result in major drops in the water levels of the Yangtze River and could allow for large flows of saltwater into the surrounding estuaries.

The Three Gorges Dam has widely been derided as the origin of the drought in the Poyang Lake district, along with other areas in the Yangtze River basin. But some experts have said the problem stems from reduced runoff in the region, and heightened demand for water in communities near the Yangtze River.

At the current stage, the Three Gorges Dam is serving to alleviate low water levels in Poyang Lake through discharging water in its reservoir, said Xu Xinfa, deputy director of the Jiangxi Provincial Institute of Water Sciences.

But Xu said that an early onset of the dry season in the Poyang Lake area is expected to occur due to the upcoming water impoundment at the Three Gorges reservoir. Starting in October every year water levels in the lake area drop significantly and those levels remain until April. This, combined with this year's climate changes, will exacerbate the dry conditions of the lake's area.

CAXIN / **LINK**

This is an odd alloy of earnestness and pantomime, to be sure, but it's something else too: Syntagma Square has become the new frontline of the battle against European austerity. And as prime minister George Papandreou battles first to keep his own job, and then to win MPs' support for the most extreme package of spending cuts, tax rises and privatisations ever faced by any developed country, what happens between this square and the parliament matters for the rest of the eurozone.

> ... Papandreou's face is plastered over placards that congratulate him in English for being "Goldman Sachs' employee of the year"

The banner wavers here know this. In the age of TV satellite vans and YouTube, they paint signs and coin slogans with half an eye on the export market. Papandreou's face is plastered over placards that congratulate him in English for being "Goldman Sachs' employee of the year". Flags jibe at the rive gauche: "The French are sleeping – they're dreaming of '68."

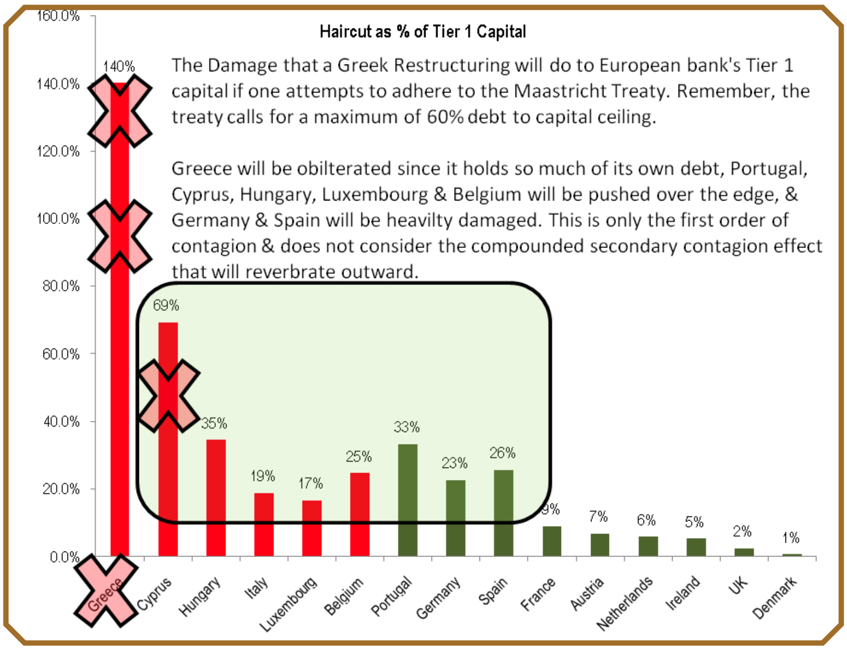
Most of the time, the anger is expressed sardonically. A friend shows me an app on her phone that gives updates on the latest political and industrial actions – its name translates as iStrike. But it's not hard to see how this situation might boil over.

...For their part, protesters with salaries and wrinkles are fuming at the spending cuts already inflicted on them. Chryssa Michalopolou is a teacher who calculates that her annual pay has already gone down by the equivalent of one and a half months, while her living costs have shot up, thanks to rising taxes and inflation. Does she buy the government's line that it needs to trim the public sector? "After 15 years' service, I'm only on €1,200 (£1,056) a month," she says. "I didn't see any boom; I simply paid my taxes and now I am being punished."

On display here is more than a personal grievance; it also reveals a glaring truth that politicians across Europe have so far ignored. In their efforts to hammer out a second loan agreement for Greece, eurozone ministers are focusing on the differences between bond swaps and bond rollovers, the tensions between Berlin and the International Monetary Fund and the European Central Bank or how far continental banks can withstand another massive shock.

Taken for granted in these negotiations is that the Greeks (and by implication, the Irish and the Portuguese) must accept more austerity. Yet in Athens, whether on the streets or even at a policy-making level, these technical details barely figure on the agenda. It's not just that the terms are different, the entire debate is too. Here, the argument concerns how much more austerity the Greek economy, its people and even the government can take – because all three are already at breaking point.

UK GUARDIAN / **LINK**



SOURCE: BOOMBUST BLOG

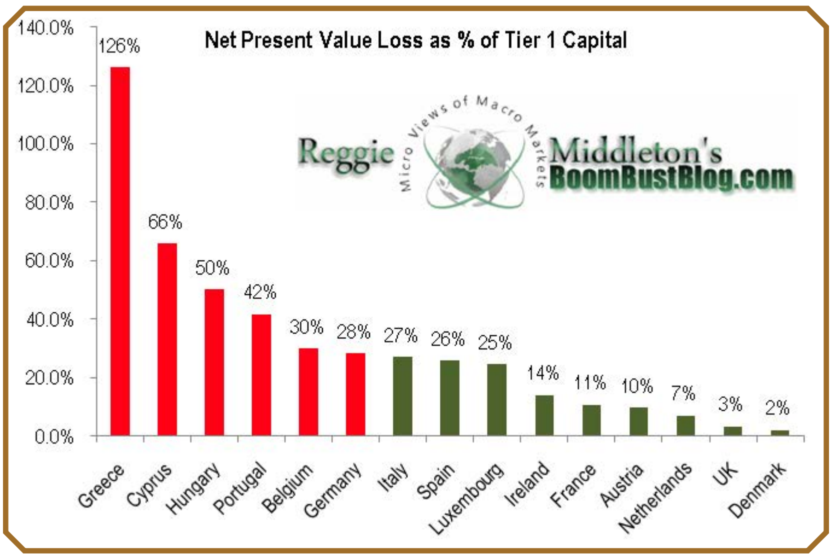
As nearly every proclamation and warning that I have given in 2010 has come to pass in 2011, the coming mass restructuring of the European banking system is nigh upon us. Let me make this perfectly clear. Despite what you may have heard, those banks and institutions holding and hoarding EU periphery debt are getting slaughtered. Let's walk through the simply math. I borrow €100 million with €10 million equity and purchase €110 million in bonds from Greece at par. These bonds are now roughly half of what I paid for them. That is a €55 million loss on a €10 million equity investment. A 550% loss! This is not rocket science, yet there are many who are dismissing this concept as sensationalist. Try dismissing it as basic math, first!

The chart [above] illustrates what would happen if Greece were to restructure to the point where it would come into compliance with the Maastricht Treaty. Of course, if Greece were to do such, it would not happen in a vacuum. You see, if Greece were to restructure than all of those banks who were playing "Hide the Sausage" would be forced to come clean and mark all of that bad debt to market. Germany would lose a full 23% of its tier one capital, and Germany is the number one economy and banking system in the EU, formerly thought of as untouchable!. Hey, hold on... It gets better.

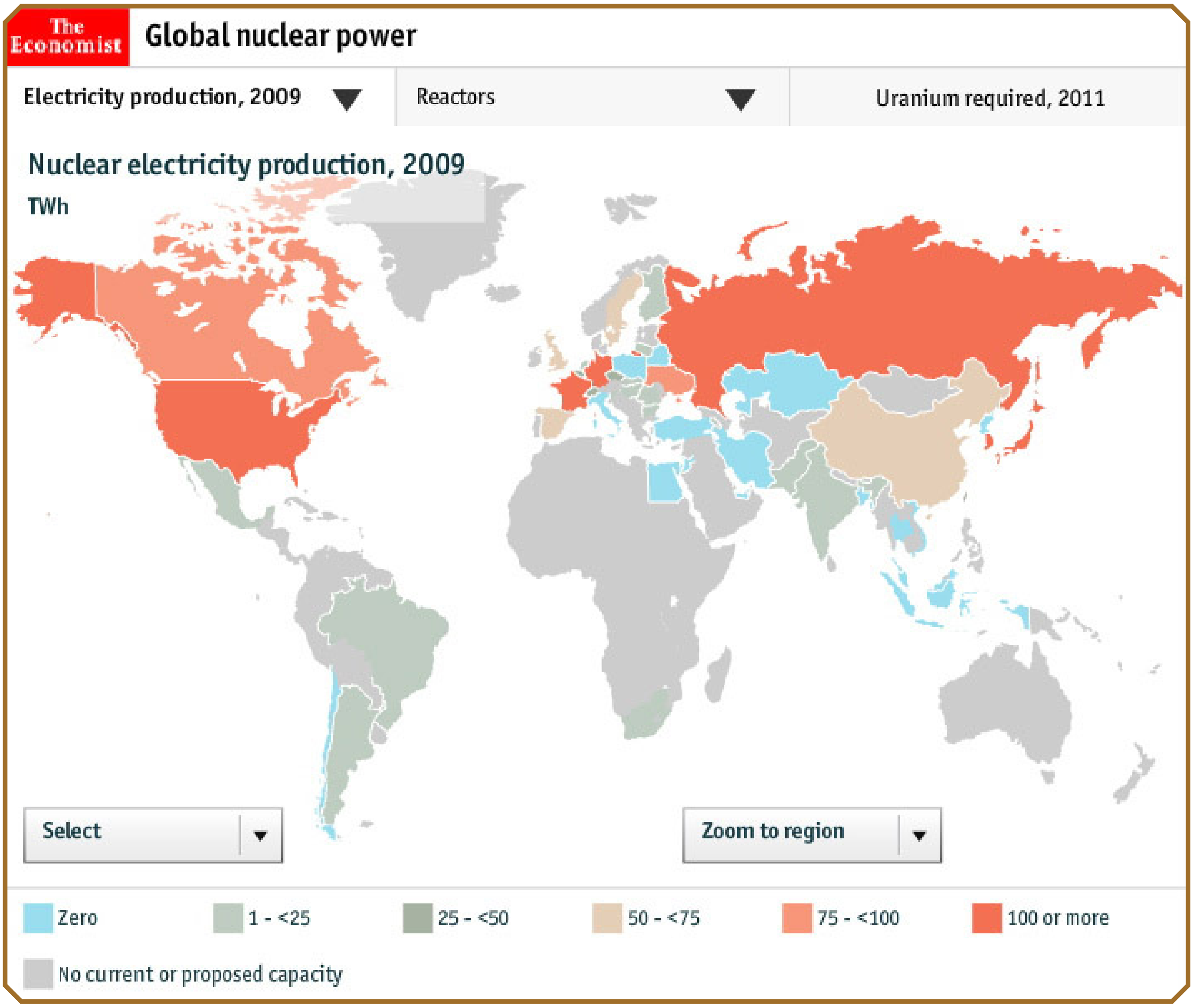
Not only do other periphery countries hold Greek debt that, if properly marked or defaulted on, would tear a hole through their domiciled banks tier 1 capital... They countries would most likely face extreme rate pressures in addition to internal socio-political pressure to default on their obligations as well as their tax paying populace undergo extreme austerity measures, mostly to save banks and bondholders. This is a pretty tough sell, even for the best political minds.

So, what happens if Portugal and Ireland decide to default/restructure as well???

REGGIE MDDLETON / **LINK**

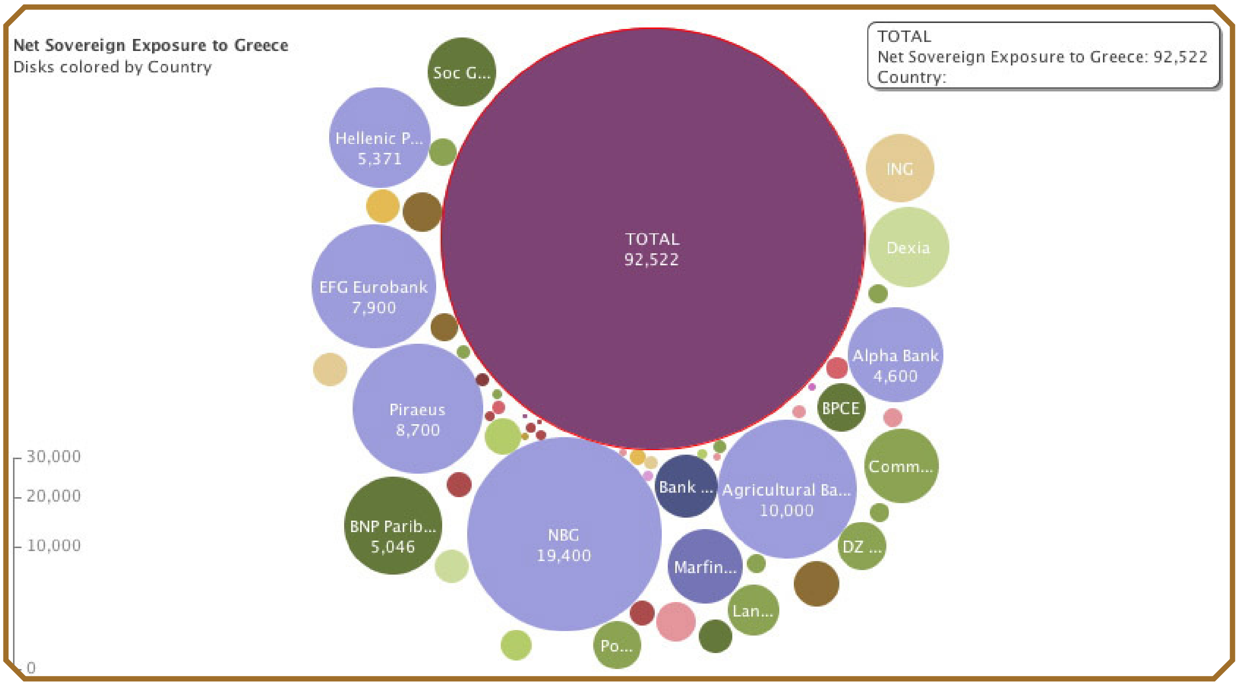


SOURCE: BOOMBUST BLOG



The appetite for nuclear power varies strongly from country to country. Some treat it as a side dish, some as a staple part of the diet, and a very few—France, Lithuania—sup on it almost to the exclusion of all else. Until the crisis at Japan's Fukushima plant that started on March 11th, the biggest change foreseen in these habits was a large increase among Asian countries. China, as well as having 77 reactors planned and under construction, has 110 more proposed, according to the World Nuclear Association. Delivering all that would make it far and away the largest producer of nuclear electricity in the world. As our briefing on nuclear power explains, those plans may now slow, and there is obviously a large question mark over Japan's new reactors. But with the West already showing a diminished appetite for nuclear power, it seems likely to become an ever more Asian speciality. Our maps show the 30 countries that currently use nuclear power, as well 18 others that are planning to do so.

THE ECONOMIST / **LINK**



SOURCE: THE GUARDIAN

How exposed are the world's big banks to the Greece Debt crisis?

The crisis is tying up many of Europe's leaders in constant negotiations to agree a bailout deal.

...The banks with the highest exposure to Greek's problems are not necessarily those with the most invested - the UBS figures also compare the banks' exposure to Greek debt to their total equity, to illustrate whether they have sufficiently strong reserves to handle a Greek debt default.

So, which banks are worst hit?

After the Greek banks, the hardest hit would be those from France and the 11 German banks with stakes in the country.

There is also some €2.3bn invested by British banks too.

UK GUARDIAN / **LINK**

The Guardian has UBS data on the exposure that European banks have to Greek sovereign debt; the grand total, of €93 billion, seems low to me, especially when you back out the €46 billion owned by Greek banks. Add up all the French banks combined and you get to €9.3 billion; Germany's even lower, at €7.9 billion. All of these sums are entirely manageable and imply that the impact of a Greek default on European bank solvency would be de minimis.

But those aren't the only numbers out there. Kash has found data from the BIS which shows much larger exposures: $65 billion in France, $40 billion in Germany. (And another $40 billion in the US, which I'll come to in a minute.)

FELIX SALMON / **LINK**

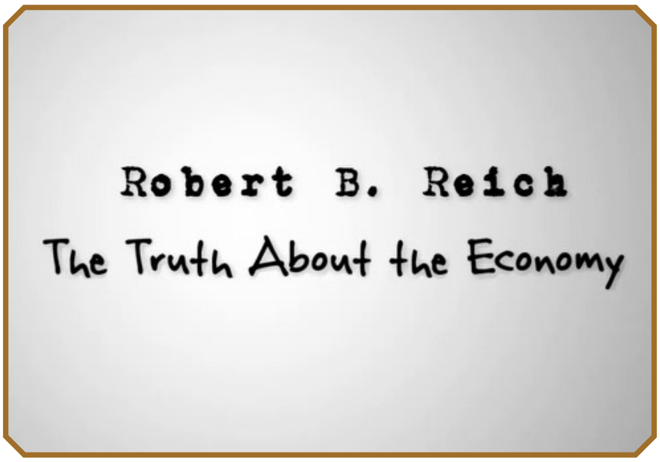
CLICK TO LISTEN

A familiar face to regular readers, Nigel Farage, the outspoken English Member of the European Parliament, talks to Eric King about Greece. As expected, Nigel pulls no punches whatsoever.

Unlike many other commentators, Farage lays out the skeleton in the closet that is the ECB's €190bln exposure to Greek debt.

Farage explains his fears of a Civil War in Greece that could spread across Europe as the country descends into anarchy and discusses the shocking level of youth unemployment in Spain - which now stands at 42%.

Either this is sped up in parts, or Robert Reich can draw quicker than The Cisco Kid. Here he outlines the problems with the US economy in two minutes



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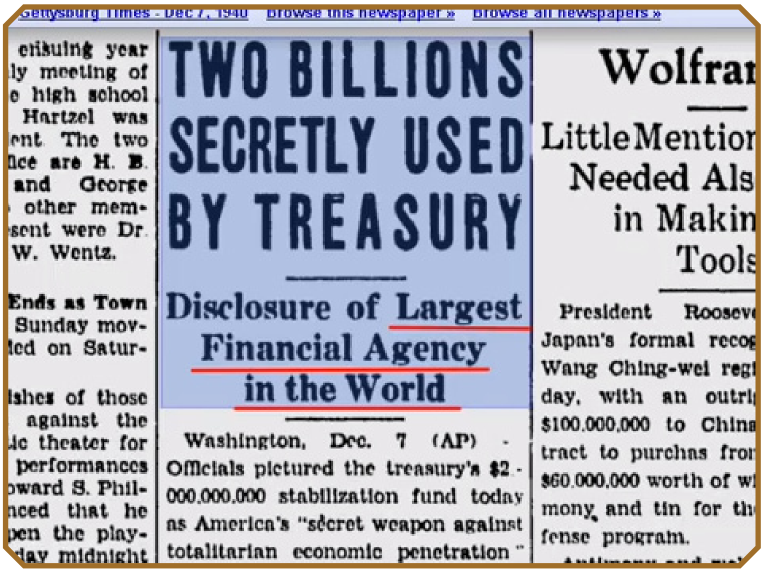

Gettysburg Times - Dec 7, 1940 Browse this newspaper » Browse all newspapers »

TWO BILLIONS SECRETLY USED BY TREASURY

Disclosure of Largest Financial Agency in the World

Washington, Dec. 7 (AP) - Officials pictured the treasury's $2,000,000,000 stabilization fund today as America's "secret weapon against totalitarian economic penetration"

Click on the image (left) to watch two incredible videos on the history of the Exchange Stabilization Fund.

Mike Krieger sent these to me and they are absolutely incredible.

Established in 1934, the ESF was 'seeded' with $2,000,000,000 which, today, would equate to $ $32,218,651,427. You can get a lot of things moving in the direction you want with that kind of money.

Please watch both these videos.

[Link 1] [Link 2]

Any selachophobes reading may ant to skip today's 'And Finally...' section, but anyone who shares my fascination for these beautiful creatures will get a real kick out of this video.

My thanks to Tom for sending me this amazing footage.

Hmmm…

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