THINGS THAT MAKE YOU GO Hmmm...

A walk around the fringes of finance

nu·ance (näns, ny-, n-äns, ny-)
n.

1. A subtle or slight degree of difference, as in meaning, feeling, or tone; a gradation.
2. Expression or appreciation of subtle shades of meaning, feeling, or tone

– MERRIAM-WEBSTER

"...the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough."

– Mario Draghi

"[Euro-area policy makers] feel committed to do everything we can to maintain the common currency."

– Angela Merkel

For over a century, the modern Olympic Games has captivated the world as the finest athletes on the planet come together to compete against one another in an attempt to prove which of them was the superior competitor and to give their countrymen and women, sat at home, a burst of nationalistic pride that would transcend whatever the economic conditions were at the time.

In 1908, the Games of the V Olympiad had been scheduled to be held in Rome, but due to the rather unfortunate eruption of Mount Vesuvius two years prior on April 6th, 1906, the Italian government asked that the Games be held elsewhere as the money earmarked for the Olympiad would be needed to rebuild the Naples area that had been devastated by the troublesome volcano. The reality, in fact, was rather different as Italy had been suffering from economic hardship since the late 1880s and the volcano had actually provided a rather convenient excuse to relocate the Games and save an awful lot of money that could be used far more productively.

Fortunately for Italy, Great Britain (which at that time was still worthy of the 'Great' as the final medal table, right, demonstrates) happily stepped in and offered to hold the Games. They would be staged at a purpose-built stadium at White City (which would later become home to greyhound racing), alongside the far more prestigious Franco-British Exhibition—a sprawling jamboree held to celebrate the signing of the famous entente cordiale between Britain and France which had been signed in 1904.

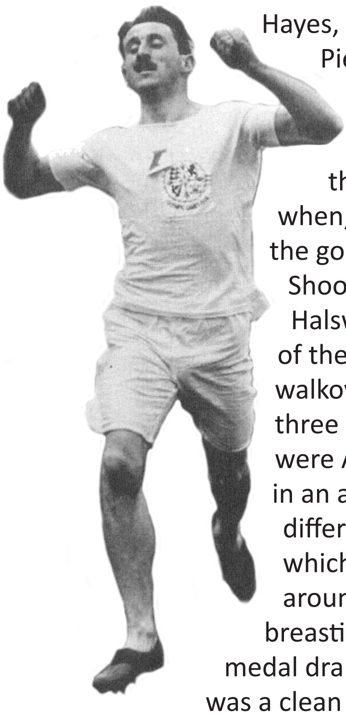
The 1908 Games would later be reclassified as the Games of the IV Olympiad after those held in Athens, Greece in 1906 were 'downgraded' by the IOC thus setting a precedent for Moody's, S&P and Fitch a little over a century later.

The London Olympics, which were held over a six month period between April and October, were notable for several reasons, not least of which was the rather interesting story of how the length of the modern marathon came to be established:

> *(Wikipedia): The original distance of 25 miles was changed to 26 miles so the marathon could start at Windsor Castle and then changed again at the request of Princess Mary so the start would be beneath the windows of the Royal Nursery. To ensure that the race would finish in front of the King, the finish line was moved by British officials who, in response to shot putter and American flag carrier Ralph Rose's refusal to dip the American flag before the Royal Box during the opening ceremony, "felt compelled to restore the importance of the monarchy." As a result of these changes, the marathon covered a distance of 26 miles 385 yards (42.195 km), which became the standard length starting with the 1924 Summer Olympics.*

Rank	Nation	Gold	Silver	Bronze	Total
1	Great Britain (host nation)	56	51	39	146
2	United States	23	12	12	47
3	Sweden	8	6	11	25
4	France	5	5	9	19
5	Germany	3	5	5	13
6	Hungary	3	4	2	9
7	Canada	3	3	10	16
8	Norway	2	3	3	8
9	Italy	2	2	0	4
10	Belgium	1	5	2	8

The additional 1 mile 385 yards played havoc with poor Dorando Pietri of Italy who, having entered the stadium in first place, promptly collapsed several times before getting up and running in the wrong direction. After being aided by two officials who turned him around and pointed him in the right direction, Pietri's lead was substantial enough that he still crossed the line in first place to win the gold medal—only to lose it as the American runner-up, Johnny Hayes, lodged a protest which led to Pietri's disqualification.



Elsewhere at the IV Olympiad, Sweden's Oscar Swahn became the oldest Olympic champion when, at the ripe old age of 60 he won the gold medal in the Running Deer Shooting, British athlete Wyndham Halswelle (left) won the equivalent of the modern-day 400m in the only walkover in Olympic history when the three other competitors—all of whom were American—refused to compete in an argument over the two countries' differing interpretations of the rules, which in turn led to Halswelle jogging around the track on his own before breasting the tape and having the gold medal draped around his neck and there was a clean sweep for Great Britain in the Olympic Tug of War competition as the City of London Police defeated the Liverpool Police in the final with the Metropolitan Police "K" Division cementing third place in a tug-off meaning that, for the first and only time in Olympic history, gold, silver *and* bronze were all won by coppers.

The other notable thing about the 1908 Olympics was the cost of staging it.

> *(Wikipedia): The budget of the organising committee showed a cost of £15,000; over one-third was labeled "entertainment expense". Donations were the major source of revenue; only 28% of income derived from ticket sales. Total receipts of £21,377 resulted in organisers claiming a profit.*

In other news, the British government of the day, under the Liberal leadership of Henry Campbell-Bannerman, decided *not* to include the stadium construction cost of £60,000 in the final accounting.

As the cosignatories of the Entente Cordiale would no doubt say; Plus ça change plus c'est la même chose.

Last weekend saw the closing ceremony for the London 2012 Olympic Games beamed around the world to over 4 billion viewers. It represented the end of what has been widely acclaimed as the greatest modern Olympics in history. London was certainly a gorgeous backdrop for the Games and, despite fears of the kind of travel chaos only the British railway and Underground systems can unleash, the games went off without a hitch.

The road to the Games though could hardly be described similarly.

When the London delegation was awarded the Games in 2005, the estimated cost of the event was £2.3bln (an estimate, incidentally, made by Tony Blair’s Labour government under the financial stewardship of everybody’s favourite Chancellor of the Exchequer and financial seer, Gordon Brown), but by the time the Games themselves had rolled around, the estimates of the total cost—like most estimates by governments everywhere—proved to be wildly off-base. And not in the good way.

Along the way, the estimate for London 2012 crept higher.....and higher..... and higher still as it sliced through £3bln on its way to £5bln then £7bln and, finally, £9.3bln. Amazingly enough, two of the largest cost increases were down to ‘VAT and increased security costs’ both of which were, apparently, ‘overlooked’. Yeah. Overlooked.

Luckily, political revisionism is not a trait that sits staunchly on any one particular side of the aisle, but is, in fact, the one truly bipartisan characteristic that can be counted upon in these politically-divisive times in which we live and so it was that the British Olympics Minister, Hugh Robertson, with the kind of words only a true politician has the ability to deliver, appeared triumphantly on the eve of the Games to claim an historic victory over profligacy as he touted the 'significant achievement' that spending on the Games was expected to come in ~~£6.95bln over budget~~ £476mln under budget.

Culture Secretary, Jeremy Hunt, gleefully chimed in that it was 'fantastic news' that the Games would be both on time AND under budget:

> *(BBC): Mr. Hunt said: "Britain has proved that not only can we put on a great show for the world to watch like we did with the Jubilee but that we can also deliver big construction projects on time and on budget."*

> *Mr. Robertson said the latest figure for the Games, which begin next month, was "a great advert for the British construction industry, for sport and for UK Plc".*

Hooray!

> *Addressing the original bid budget of £2.3bn, Sports Minister Hugh Robertson said there was a "recognition right from the word go that figure would have to change dramatically on the basis of delivering the Games".*

Ahem!

But such is the way of the world when governments are involved I'm afraid, and it's most certainly not restricted to that of Great Britain—or 'Team GB' as the UK coalition is thinking about renaming themselves in order to capitalize on Britain's new-found joie de vivre. No. One only has to look at the impressive recent estimates of François Hollande's tax office to see a marvellous example of just how misguided these people can be:

> *(FT): An extra €2.3bn will be raised by an exceptional tax charge on all those with net wealth of more than €1.3m.*

> *Further tax increases for next year, when the government is expected to have to find €33bn in savings to bring the deficit down to 3 per cent of GDP, will be spelt out in the autumn. They will include President Francois Hollande's election pledge of a 75 per cent marginal rate on annual incomes of more than €1m – and permanent increases in wealth taxes.*

> *But ministers said the tax regime would then be held stable for the rest of government's term up to 2017, when France is due to balance its budget. They made clear that from 2013, spending cuts would make up half of the savings required to meet this target.*

"... France is becoming a divided place. But it's not divided between those with money and those without...it's divided between those who work and those who don't"

An extra €2.3bln 'will be raised'.

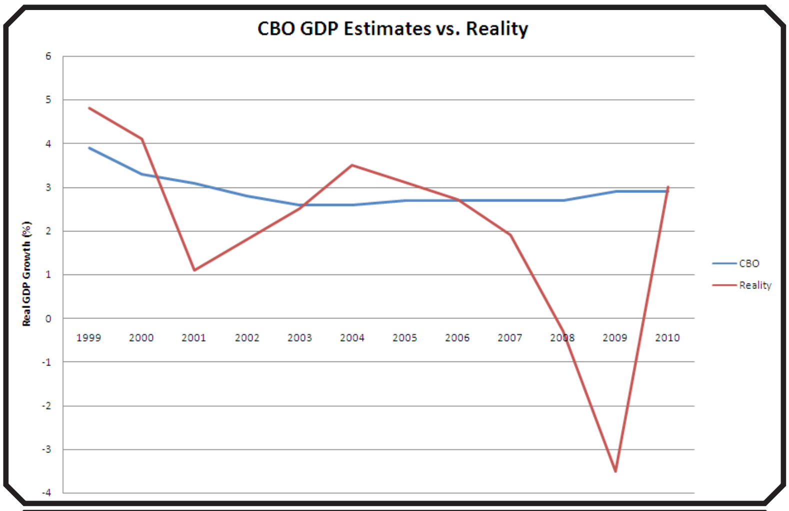
The cost of London 2012 'will be £2.3bln'.

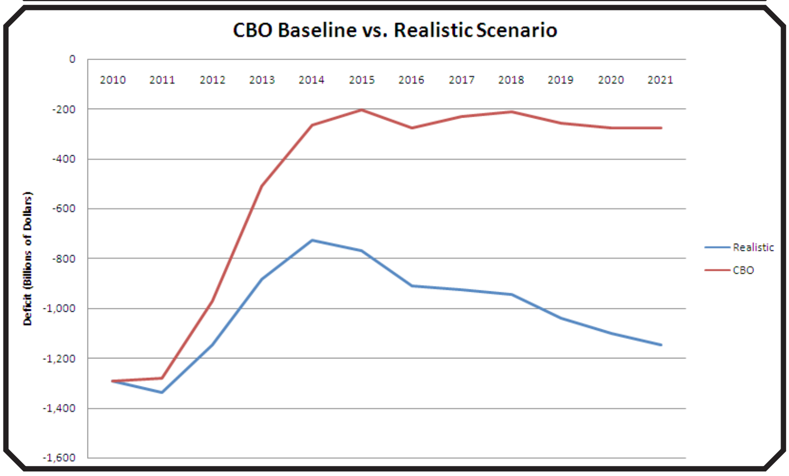
One high. One low. Both wrong.

The reality, of course, is always different. It is estimated that the wealth tax would affect a grand total of 3,000 families in France and, amongst those 3,000, the vast majority have both the means and the motive to leave the country altogether and pay 0% tax to the French government as a recent piece in the Christian Science Monitor demonstrated:

> *(Christian Science Monitor): "France is finished. We're leaving! Well, of course, I'm exaggerating. Young people with talent, brains and ambition are leaving. And old people with money are leaving. That leaves the middle classes...and what you call the 'zombies.' And there are more and more of them. France is becoming a divided place. But it's not divided between those with money and those without...it's divided between those who work and those who don't. Those who do honest work have to work harder and harder to support those who don't work."*

Estimates by the US Congressional Budget Office are always a source of great amusement when it comes to estimating the cost of pretty much anything as the two charts below demonstrate simply and clearly. The first is the official estimate of US GDP which, as one can see, stubbornly refuses to ever acknowledge the possibility of a recession, whilst the second is an





SOURCE: LIBNEO

assessment of the likely US deficit out to 2021 and, as you can see, they are banking on things getting a *lot* better *real* fast.

The reason for this tendency? Simple:

> *(Forbes): The CBO studies that I have examined use Keynesian models as the basis for all their calculations. If they are ordered to estimate the effect of the stimulus on GDP and jobs, they attach Keynesian multipliers to different spending categories. The model they use guarantees the finding that the stimulus saved jobs and growth.*

Everywhere one looks, rosy assessments are made about not only the likely cost of things such as sporting events such as the 2010 World Cup which was held in South Africa and, on the day it kicked off was 757% above budget, or even the upcoming 2022 World Cup to be held in Qatar which, according to the tournament's Director of Communications, Nasser Al Khater will cost the Emirate US$4bln—though German financial analyst Dr. Nicola Ritter has a slightly higher projection:

> *(UK Independent): The total bill for holding the 2022 World Cup in Qatar could be as much as £138billion, according a leading analyst.*
>
> *Dr. Nicola Ritter, a German legal and financial analyst, told an investors' summit held in Munich that £107billion would be spent on stadiums and facilities plus a further £31billion on transport infrastructure, according to Construction News.*
>
> *Ritter said £30billion would be spent on build air-conditioned stadia - at least 12 will be needed - with £48billion on training facilities and accommodation for players and fans.*
>
> *A further £28billion will be spent on creating a new city called Lusail which will surround the stadium which hosts the opening and final matches of the tournament.*

but also likely revenues (like our friends at the French Tax Office) as the State of New Jersey was forced to sheepishly admit earlier this year:

> *(NJ1015): Dr. David Rosen with the Office of Legislative Services (OLS) estimated that over the next 14 months state revenues will lag $1.3 billion behind Christie's projections. Governor Chris Christie expects the budget gap to be about $676 million.*
>
> *Rosen freely admits that every revenue projection is wrong.*

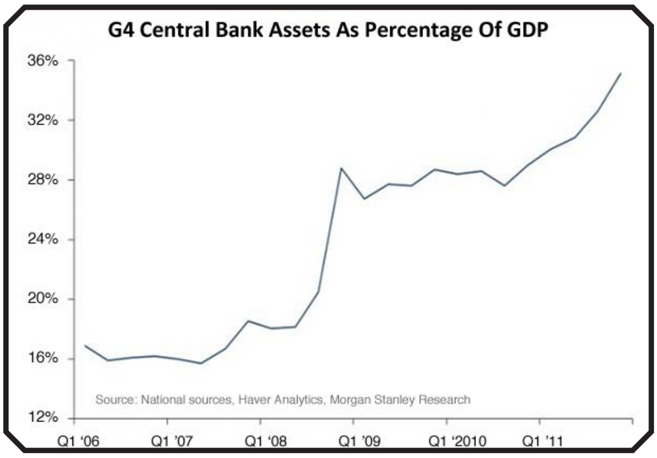
Understandably, NJ governor Chris Christie was, how shall I put it? A little peeved by this assessment from the good doctor:

> *(NJ1015): After hearing Rosen's estimates, Christie blasted the budget expert calling him, "The Dr. Kevorkian of the numbers." The Governor says OLS is partisan and always has been. He claims it caters to the majority party in New Jersey which currently happens to be the Democrats.*
>
> *It is crystal clear that the Governor is not buying Rosen's projections. Christie says, "Nobody in New Jersey believes David Rosen anymore, nobody, and nobody should.....He's so wrong for so long that his credibility is now gone.... Why would anybody with a functioning brain believe this guy? How often to you have to be wrong to finally be dismissed?"*

It basically comes down to human nature. Everybody wants to hear the good news and be given the best-case scenario and so politicians realize that it is firmly in their best interests to give the public what they want and the best part of all is that it doesn't cost any money to lie.

After five years of massive central bank interference in markets, during which time official projections for the future have been almost unanimously positive with the word 'temporary' being used more by the world's politicians, central bankers and talking heads than the word 'whatever' is used by the world's teenagers, there is absolutely nothing even remotely temporary about the rapid expansion of the world's central bank balance sheets as the chart (above, right) demonstrates:

Leaders and central bankers alike have been 'temporarily' trying to tweak economic conditions through an array of extraordinary methods that have little or no precedent in a desperate attempt to avert something that used to be known as a 'recession'. Granted, this particular recession would likely have been deep and prolonged, but by trying so desperately to stop it altogether, they have moved farther and farther along the reality curve—reaching the point where buying one's own debt with freshly-minted money is not only the default option, but, more dangerously, markets have come to rely on such stimulus in order simply to not collapse.



CLICK TO ENLARGE

SOURCE: BUSINESS INSIDER

To paraphrase Sir Walter Scott;

> *Oh, what a tangled web we weave,*
> *When first we Quantitative Ease*

This week, in the United Kingdom, the Ponzi Scheme being run by central banks and governments finally turned around and began to eat its own tail when a Citigroup economist by the name of Michael Saunders made one of those suggestions that perhaps you ought to not use your out-loud voice on:

> *(UK Daily Telegraph): Michael Saunders, UK economist at Citi, said the Government could use the "accumulated profits from quantitative easing (QE) to finance a special temporary tax cut for a year or two". According to official figures, the "potential profit" by February 2013 from QE to the Bank is £20.7bn – more than enough to knock 2.5p off income tax for a year.*

Now, about 30 minutes after I read this story, when my eyes had rolled forwards in my head once again, I read it again and, no, it didn't get any better.

It got worse:

> *The real potential profit is even larger as the QE programme has been extended by £50bn to £375bn since the official figures were compiled, and several economists expect the Bank to add another £50bn before the end of the year. Mr Saunders said the profits could reach £30bn by 2013, which could fund a two-year tax giveaway.*

So, leaving aside for a moment the fact that we have a programme in place whereby the Bank of England creates money out of thin air and uses it to buy bonds the UK Treasury issues (also out of thin air), we are now going to use the 'profits' generated by the higher prices in the UK gilt market (which are in turn the result of the Bank of England using the magic money created out of thin air to buy the gilts created out of thin air by the Treasury, thus driving the price higher) to cut taxes and therefore reduce government revenue 'for a year or two' which will in turn stimulate the spending of real money by a British public so bamboozled by the absurdity of this entire charade that they wander aimlessly into their local store and buy 'stuff'.

> **"... Although the arrangement means the funds are effectively moved from one arm of government to another, it is still recorded as a normal payment"**

In fact, according to Mr. Saunders, the more money the BoE prints and the more of its own debt it buys, the greater the profit will be so I guess the obvious question has to be; Why doesn't the Bank of England print enough money to not only deal with the 8.3% deficit that the UK is currently running (chart, bottom, left), but perhaps print a little extra and give each of my poor, long-suffering countrymen a little taste of honey in the form of some free money?

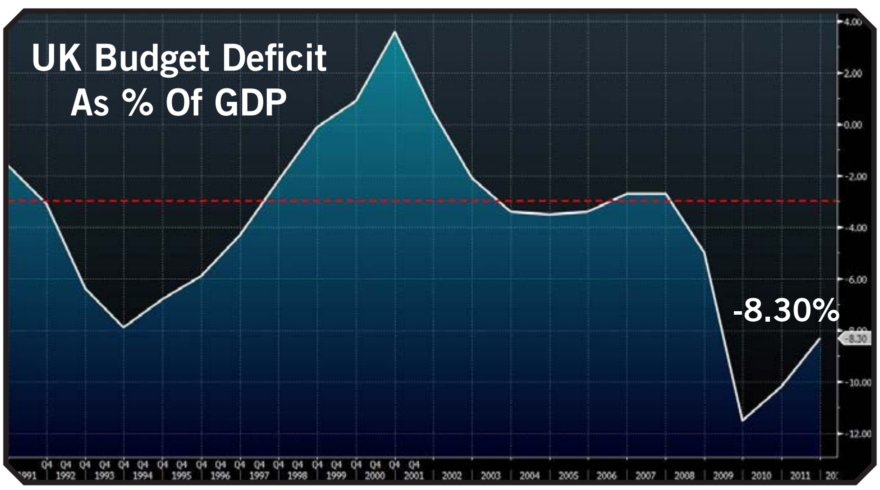
How could this wacky idea possibly even be remotely feasible, I wonder?

> *(UK Daily Telegraph): The Bank is sitting on QE profits because it bought gilts with money it has effectively printed. The gilts pay interest which is collected from the Government. Although the arrangement means the funds are effectively moved from one arm of government to another, it is still recorded as a normal payment .*

Of course it is.

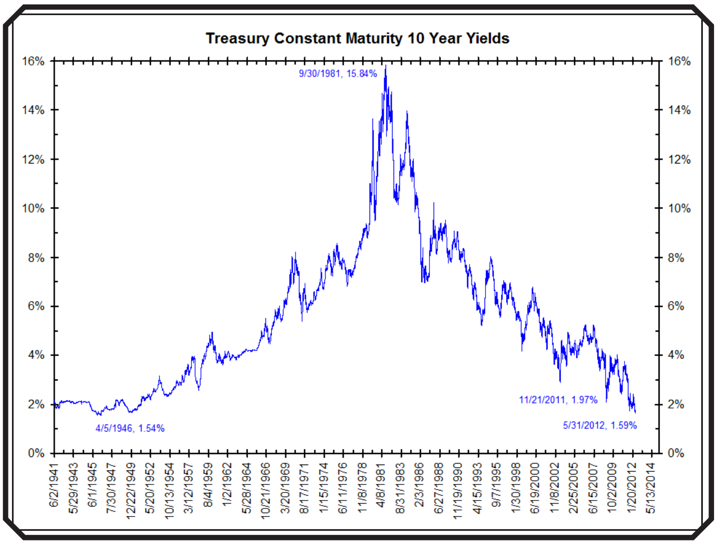
People! Wake up! Please!

It's not too late, but it soon will be I'm afraid. You cannot just 'print money' and expect everything to be fixed. Seriously. Just think about it for a second.

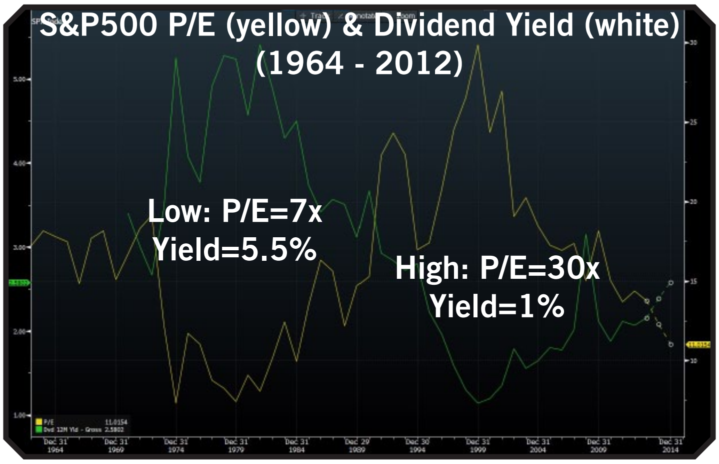


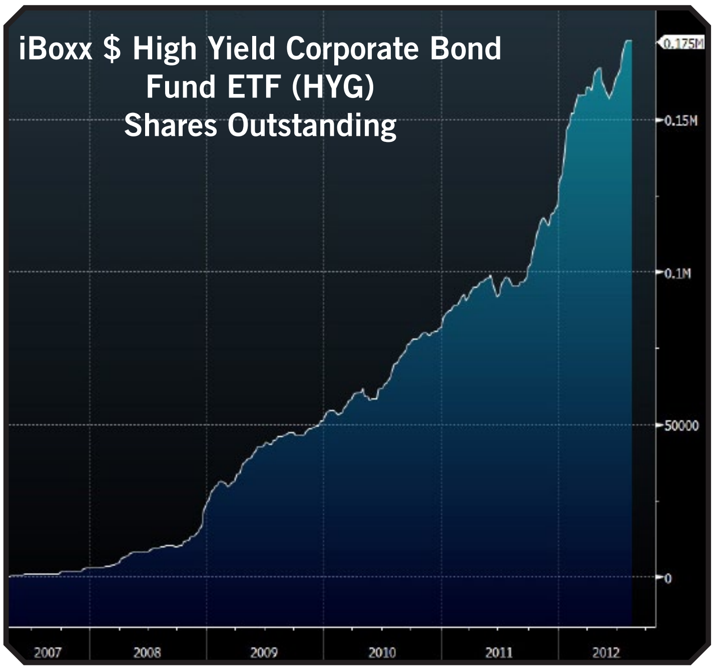
SOURCE: BLOOMBERG

Quantitative Easing has become something it was never intended to be and that is simply an injection of heroin into the veins of the financial system. Investors everywhere are waiting for a globally-coordinated round of central bank asset buying—sorry, make that *another* globally-coordinated round of central bank asset buying purely because it will 'make things go up again'. Why do they want things to go up? Why, so they can sell them of course.



SOURCE: RITHOLTZ





SOURCE: BLOOMBERG

The simple truth is this; equities are NOT really 'cheap'. The chart of the S&P500 (middle, left) shows what valuation tops and bottoms look like in terms of P/E ratios and dividend yields and we are not there yet. Government bonds are at levels we have pretty much never seen before and likely never will again (chart, top left) and are only being bought out of fear or in the hope that the government will come in and be the greater fool (which I will admit is usually a pretty safe bet, but this time, the stampede to sell the government what it offers to buy will be absolutely overwhelming and many investors will get trampled in the rush). High yield debt is also getting way ahead of itself as a look at the number of shares outstanding in BlackRock's iShares iBoxx $ High Yield Corporate Bond Fund ETF (HYG) demonstrates (chart, below left). Investors are being forced, by financially repressive government intervention, into chasing yield wherever they can find it—even if that means heading in directions that traditionally warrant a lot more caution.

As we approach QE3 in whatever form it takes (and, if there is one single thing I feel safe relying on in current market conditions it is that QE3 is coming—most likely in the form of a massive, coordinated intervention by the ECB, Fed, BoE, PBOC and BoJ), it is interesting to note that in the safe-haven bond markets, the signs that investors fear the top may be in are finally beginning to show as a look at the chart on the following page illustrates. It shows the recent back-up in US and German 10 and 30 year bond yields as the 'smart' money moves quietly towards the theater exit, hoping to hand its empty popcorn box and coke cup to the government employees who stand by the doors with empty rubbish bags after the show finishes.

Almost forty years ago, as Britain's Labour Party faced the abject failure of its Keynesian experiment, the Prime Minister, James Callaghan made a speech at the Party Conference that Liam Halligan of the UK Daily Telegraph kindly dug up this week and it is breathtaking in its candour and, as Liam explains, it marked a watershed moment in British politics—one that may soon be marked in a far wider fashion:

> (*UK Daily Telegraph): "We used to think you could spend your way out of recession and increase employment by boosting government spending," boomed the Prime Minister, Jim Callaghan, at the 1976 Labour Party conference.*
>
> *"I tell you, in all candour," he went on, "that that option no longer exists. And in so far as it ever did exist, it only worked on each occasion... by injecting a bigger dose of inflation into the economy, followed by a higher level of unemployment as the next step..."*
>
> *The above words are among the most important uttered in the history of modern British politics. For a left-wing prime minister to have admitted that too much state spending is dangerous, while being barracked by a rabble of bearded Trotskyists from among his own party ranks, marked a turning-point in Western economic policymaking.*
>
> *For it was in 1976 that the UK government had been rescued by the International Monetary Fund. After years of industrial subsidies, soft-budget constraints and Keynesian hubris, Britain was insolvent – unable to service its debts. After months of denial, the markets forced Callaghan's government, "cap in hand", to seek an IMF bail-out.*
>
> *On that day, all notions that the UK remained a world-class economy, an industrial powerhouse, were exposed as nonsense. It was this country's "economic Suez".*
>
> *What brought Britain to that disgraceful nadir was a lot of self-serving ideas about the wisdom of near-limitless government largesse. The "Keynesian consensus" had been that the state could borrow and spend practically ad infinitum, that "pump-priming" the economy was "the right thing to do".*
>
> *By stating the obvious, "Sunny Jim" smashed up that consensus. His criticism of "big government" amounted to political blasphemy. Callaghan's words, however, were the high-water mark of Keynesian economics – which afterwards rapidly retreated. We had tried high state spending and it didn't work. All it did was produce ghastly inefficiencies, inflation and, worst of all, expose supposedly sovereign governments to the wrath of their private-sector creditors. (FULL ARTICLE) (FULL SPEECH)*

Read those words carefully folks because what Callaghan said is as true today as it was in 1976.

We cannot just print money to solve the problem of too much debt. The fact that it is even considered an option beggars belief, frankly, but with interest rates essentially at zero, in one way or another, it feels as though 'free money' is seen by not only investors, but by those in control of the purse strings, as the only option.

We could continue the tortured analogy of the diminishing effect of heroin injections but you've heard it all before and so have I so let's just leave it there for this week. Suffice to say that when the next big injection comes (and I suspect it will have to be a BIG injection because that's what markets need), I think it could lead to an overdose.

Damn! I did the whole 'heroin analogy thing' after all.

We began this week with a heart-warming tale of a European country (Britain) stepping in to help out a neighbour who was going through financial troubles (Italy) and also referenced the Entente Cordiale signed by Great Britain and France and designed to bind them together in peaceful co-existence. However, as is customary in Europe when things get a little sticky, that 'entente' has become anything but 'cordiale' as strife ripples across the continent and appears to have withered on the vine somewhat. So, by way of a little light relief, I will leave you to assess the degree of unity in Europe by offering an extract from a recent report in the UK Daily Mail which 'celebrated' M. Hollande's first visit to the Sceptered Isle earlier this month:

> *(UK Daily Mail): Hollande personally embodies so many of his country's failings.*
>
> *He is nothing more than an apparatchik who has risen to the top of public life not through any talent or charisma, but through his willingness to spout the party line as he manoeuvred his way up the Socialist party hierarchy.*
>
> *Like so many of France's leaders, he has absolutely no experience of any world outside politics, having graduated from the elitist Ecole Nationale d'Administration, the breeding ground for nearly all France's civil leaders and bureaucrats.*
>
> *His early career saw him working for Francois Mitterand, himself another slippery, ambitious socialist.*
>
> *His record as a Deputy and Mayor in the Department of Correze, in the southern centre of the country, was hardly inspiring. He was accused of turning the area into France's own version of debt-ridden Greece. His extravagant 'ideological' policies resulted in the department having to seek a huge bailout to tackle its debts of more than £300 million.*
>
> *Now he plans to inflict the same socialist dogma on the whole of France: racking up public expenditure and favouring the vast public sector clientele. This will, it seems, be paid for by wide-ranging increases in taxes, including a proposed new top income tax rate of 75 per cent.*
>
> *The great irony about Hollande's accession to power earlier this year was that his candidacy was meant to be an antidote to the widespread revulsion at the bling-bling celebrity lifestyle of the incumbent Nicolas Sarkozy.*
>
> *Many felt that Sarkozy, along with his pouting, cosmetically enhanced ex-model third wife Carla Bruni, had turned the presidency into a soap opera.*
>
> *In addition, Hollande had managed to see off his main Left-wing rival, the rampantly priapic Dominic Strauss-Khan, the French head of the IMF who was favourite to become president until his squalid downfall over rape allegations in a New York hotel, when he was likened to a 'rutting chimpanzee'.*
>
> *Yet Hollande has also become an embarrassment through his tangled love life. It seems he's been trying to win his own gold medal in the traditional French politicians' sport of infidelity.*

Allez Wiggo!

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There will be no Things That Make You Go Hmmm..... next week, but I'll be back the following week when we will have discovered just how the Euros plan on dealing with that little matter of the €3.8bln Greece owes the ECB and is due to pay back on Monday (think; fudge). In the meantime I place you in the safe and capable hands of (amongst others) Bill Fleckenstein, Jim Rickards and Nigel Farage and will leave you to travel to Germany, Spain, Finland, Syria, an anonymous bank in Middle America, a Malibu mansion, the Sardinian coast and a Chinese auction room.

There are charts on the US drought, a fascinating look at creeping interference in stock and bond markets as well as China's insatiable appetite for the yellow metal.

Until next time...

Contents

19 August 2012

It was a cheque, made out in my name, for $95,093.35 and it came in a junk-mail letter from a get-rich-quick company. It was worthless, meant only as a financial tease, a lip-licking come-on. “This is how much money you could soon be making.” What it was never meant for was deposit. But that’s exactly what made the thought of depositing it so irresistibly funny. What could possibly be funnier than depositing a perfectly ridiculous, obviously false, fake cheque? (Did I mention it had “non-negotiable” clearly written on it?) So, as a joke, I deposited the fake cheque into my bank’s ATM. I felt like a million bucks doing so. I’d never had so much fun at my bank. Come to think of it, I’d never had any fun at my bank until the moment I endorsed the back of this “cheque” with a smiley face and slipped the Monopoly-like money into the mouth of the hungry ATM. For the first time ever, I walked away from my bank laughing.

> **“... An absolute majority of Socialists would increase the probability that the government will be able to deliver tougher fiscal austerity,”**

What I expected to happen next was a short phone call from my bank. Or a letter informing me of what I already knew, that the cheque I deposited was not real. Admittedly, I also hoped for a compliment on my refined sense of humour. A “Mr Combs, what you deposited was not real but very funny, especially considering your real bank account balance history” (an account always bouncing into overdraft).

But the call or the letter never came and I forgot about my joke. Then, five days later, I returned to withdraw some cash from the ATM, and noticed a much higher than usual bank balance. $95,093.35 higher! The bank had credited my account with the fake, false, stupid cheque!

We all know it should have ended there. Fake cheque. Bank mistake. Give it back. But easier said than done. Especially considering the series of events that happened next.

The first friend I phoned informed me that it was no mistake at all. Just standard bank policy, crediting my account with the dollar amount but putting a hold on all the funds until the cheque bounced. I couldn’t touch the money and my bank balance would be embarrassing again in three days.

But seven long days later the lottery-like amount was still there and I visited the bank where an employee told me that the funds were now all available for cash withdrawal. All $95,093.35 was mine for the taking. All I had to do was ask. Windfall money begs us to take it and run. But I restrained myself. And gave the bank another two excruciatingly long weeks to do their job, catch up with their mistake, and bounce the cheque. But at the end of three hellish weeks, during which I hourly resisted the urge to take the money and run to Mexico, where it would be worth twice as much, I was told by my branch manager, “You’re safe to start spending the money, Mr Combs. A cheque cannot bounce after 10 days. You’re protected by the law.”

FT / **LINK**

The anxieties of an unexpected landing in war-ravaged Syria were compounded for passengers on an Air France flight when they were asked by the crew if they couldn’t possibly, you know, come up with some cash to help out with the refuelling.

Passengers on Air France Flight 562 were headed from Paris to Beirut on Wednesday, but the religious and ethnic tensions of the civil war in Syria have spilled over into Lebanon, too. Unrest around Beirut’s airport made it impossible to land, Air France said Friday. The crew sought permission to divert to Amman, Jordan, but lacked the fuel to make it safely, so ended up in Damascus itself. (As if the Syrian capital were any safer.)

Air France stopped flying to Damascus in March as fighting escalated in Syria, and Paris and Damascus are not exactly on good terms these days, with France one of the most vocal countries calling for President Bashar al-Assad and his government to step down and face charges of war crimes.

France pulled its ambassador from Damascus in March, and in a reflection of the current state of relations, the French Foreign Minister Laurent Fabius, visiting a refugee camp for Syrians on the Turkish border, said Friday: “The Syrian regime should be smashed fast. After hearing the refugees and their account of the massacres of the regime, Mr. Bashar al-Assad doesn’t deserve to be on this Earth.”

And then there is the small matter of European Union sanctions on Syria, which make even buying jet fuel, let alone on credit, a little complicated.

Authorities at the Damascus airport told the crew that they could not accept credit cards because of the sanctions – cash only. So as a precaution, an Air France spokeswoman said, the crew asked the passengers how much money they happened to have in their wallets to help pay for fuel.

> “... as a precaution, an Air France spokeswoman said, the crew asked the passengers how much money they happened to have in their wallets to help pay for fuel.”

A friend of one passenger told Reuters that the passengers were willing. “Because of the terrible relations between the two countries and the situation in Syria, the passengers were really worried about landing there,” the friend said. Neither the friend nor the passenger wished to be identified; press officers for Air France normally do not allow their names to be used.

In the end, the airline managed to settle the bill without help from the passengers and the plane took off two hours later to spend the night in Cyprus, where the troubled Cypriot banks still take credit cards. The plane landed safely on Thursday in Beirut, which had apparently calmed down sufficiently in the interim.

Air France refused to say how much it paid for the fuel or how it did so.

★ ★ ★ *GLOBE & MAIL* / **LINK (THANKS RICK!)**

Say what you will about Bernard von NotHaus, the man has led his federal probation officers to some beautiful places. First, there was the waterfront penthouse in Miami Beach. Then there was the penthouse at the Marco Polo condominium in Honolulu. Today, he occupies a multimillion-dollar, 40-acre estate in Malibu owned by a longtime friend. Make no mistake, though: NotHaus is broke.

Ever since the FBI raided the Evansville office of his alternative currency, the Liberty Dollar, in 2007—seizing his assets and arresting him for counterfeiting—the 68-year-old has been living on Social Security and the kindness of wealthy acquaintances.

Which explains how someone who drives a beat-up, ’90s-era Pontiac Grand Am received his regular visit from the probation department yesterday at a spectacular house with a driveway so winding and steep that the officer refused to ascend it.

Wearing a Hawaiian shirt and his long gray hair in a ponytail, NotHaus greets me at the front gate and welcomes me inside. His companion of 40 years, Talena “Telle” Presley, disappears to a back room. If he wants to do another interview, that’s his business. A documentary filmmaker from Los Angeles has been shooting him here lately, and the BBC plans to sit down with him next week. NotHaus wastes no time spreading dozens of old coins and bills on a table for the beginning of a monetary history lesson.

“Listen, the U.S. government has been printing billions of dollars a year,” he says. “That’s like watering down good Chivas whiskey! And it always leads to hyperinflation eventually.”

He picks up a worn bill with German writing and considers it.

“Back in January of 1919, it took 12 German marks to buy one ounce of silver. Then in November 1923, just four years later, a little guy with a moustache jumped on a table at a beer hall in Munich and said the revolution had begun. Usually, people don't keep records of inflation during chaotic times, but the Germans did. And at the end of that year, it took 543 billion marks to buy the same ounce of silver. Are you familiar with the French assignat?"

He picks up another wrinkled note.

"Here's one from 1792. The French thought, 'Other people have f—ed up with paper money, but it can't happen here. We know how to manage it.' Well, during the rise of the Republic, the assignat entered hyperinflation and became worthless.

"Here's an American colonial dollar from 1796. Ever heard the expression 'Not worth a colonial dollar'? And look at this recent $100 trillion note from Zimbabwe."

> **"... Mark my words," he says, standing. "One day, gold will hit $100,000 an ounce, and silver will hit $1,000"**

NotHaus gets so excited explaining the difference between these "fiat" currencies—those not backed by a commodity like precious metal—and his own Liberty Dollar that he can no longer remain in his seat.

"Mark my words," he says, standing. "One day, gold will hit $100,000 an ounce, and silver will hit $1,000."

INDIANAPOLIS MONTHLY / LINK

The European Union was created for political reasons. Economic considerations were a means to an end, and that end was to stop the wars that had torn Europe apart in the first half of the 20th century. The key was linking Germany and France in an unbreakable alliance based on the promise of economic prosperity. Anyone who doesn't understand the political origins of the European Union and focuses only on its economic intent fails to understand how it works and can be taken by surprise by the actions of its politicians.

Postwar Europe evolved with Germany resuming its prewar role as a massive exporting power. For the Germans, the early versions of European unification became the foundation to the solution of the German problem, which was that Germany's productive capacity outstripped its ability to consume. Germany had to export in order to sustain its economy, and any barriers to free trade threatened German interests. The creation of a free trade zone in Europe was the fundamental imperative, and the more nations that free trade zone encompassed, the more markets were available to Germany. Therefore, Germany was aggressive in expanding the free trade zone.

Germany was also a great supporter of Europewide standards in areas such as employment policy, environmental policy and so on. These policies protect larger German companies, which are able to absorb the costs, from entrepreneurial competition from the rest of Europe. Raising the cost of entry into the marketplace was an important part of Germany's strategy.

Finally, Germany was a champion of the euro, a single currency controlled by a single bank over which Germany had influence in proportion to its importance. The single currency, with its focus on avoiding inflation, protected German creditors against European countries inflating their way out of debt. The debt was denominated in euros, the European Central Bank controlled the value of the euro, and European countries inside and outside the eurozone were trapped in this monetary policy.

So long as there was prosperity, the underlying problems of the system were hidden. But the 2008 crisis revealed the problems. First, most European countries had significant negative balances of trade with Germany. Second, European monetary policy focused on protecting the interests of Germany and, to a lesser extent, France. The regulatory regime created systemic rigidity, which protected existing large corporations.

Merkel's policy under these circumstances was imposed on her by reality. Germany was utterly dependent on its exports, and its exports in Europe were critical. She had to make certain that the free trade zone remained intact. Secondarily, she had to minimize the cost to Germany of stabilizing the system by shifting it onto other countries. She also had to convince her countrymen that the crisis was due to profligate Southern Europeans and that she would not permit them to take advantage of Germans. The truth was that the crisis was caused by Germany's using the trading system to flood markets with its goods, its limiting competition through regulations, and that for every euro carelessly borrowed, a euro was carelessly lent. Like a good politician, Merkel created the myth of the crafty Greek fooling the trusting Deutsche Bank examiner.

The rhetoric notwithstanding, Merkel's decision-making was clear. First, under no circumstances could she permit any country to leave the free trade zone of the European Union. Once that began she could not predict where it would end, save that it might end in German catastrophe. Second, for economic and political reasons she had to be as aggressive as possible with defaulting borrowers. But she could never be so aggressive as to cause them to decide that default and withdrawal made more sense than remaining in the system.

Merkel was not making decisions; she was acting out a script that had been written into the structure of the European Union and the German economy. Merkel would create crises that would shore up her domestic position, posture for the best conceivable deal without forcing withdrawal, and in the end either craft a deal that was not enforced or simply capitulate, putting the problem off until the next meeting of whatever group.

★ ★ ★ *STRATFOR (VIA JOHN MAULDIN)* / **LINK**

In order to avoid the wrath of his nation's labor unions, Spain's prime minister agreed to extend the unemployment benefits for another six months.

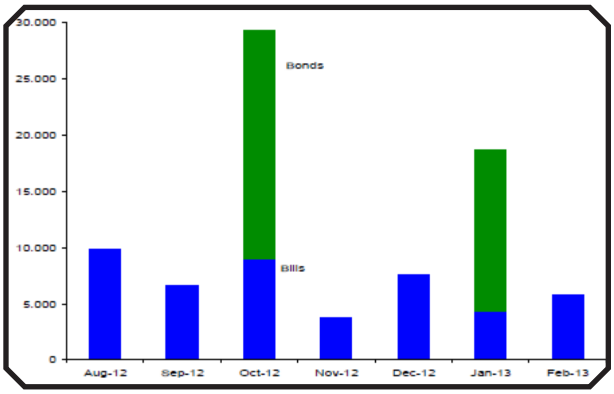
> *Bloomberg: - Rajoy said yesterday his government will continue to make payments to the long-term unemployed, extending for six months a benefit adopted by his Socialist predecessor three years ago that was due to expire today.*

This may further strain the nation's budget deficit and potentially irritate Germany, who reluctantly agreed to allow the ECB to provide direct support to the Spanish government. And Spain is fully expected to ask for that support.

> *BNP Paribas: - Both Spain and the European Commission seem to be moving closer to a Spanish bailout. This Tuesday, after a meeting with the King of Spain who had interrupted his holiday, the Spanish prime minister, Mariano Rajoy, reiterated that the Spanish government might be willing to request support as long as the conditions of the ECB's bond buying are known. And, on the same day, the European commissioner, Oli Rehn, said that Spain has an open mind on the issue of a possible request for a bailout and that if that request comes, the European Commission stands "ready to act".*

Spain's near-term financing needs are not insurmountable (chart below), but the market could shut down rapidly if the ECB does not begin its bond purchase program soon. At this stage the markets will be unforgiving should the bailout fall short of expectations.

That's why taking actions that may jeopardize current fiscal conditions is so dangerous, particularly at this stage.



SOURCE: SOBER LOOK

Bloomberg: - "He's going to provoke an angry response and make the ECB even less willing to provide support," said Stuart Thomson, a fund manager at Ignis Asset Management in Glasgow, who expects Spain to seek external funds by the end of the year. "Why poison the negotiations with resistance and decisions that will annoy the northern Europeans?"

As the "risk calendar" shows, the next few weeks are going to be critical. Rajoy will meet and greet the Eurozone leadership in order to secure this ECB bailout without agreeing to unsustainable austerity measures.

BNP Paribas: - ... the office of the Spanish prime minister has announced that Mr Rajoy will meet the president of the European Council, Herman van Rompouy, before the end of August, German chancellor, Angela Merkel, on 6 September and the Italian prime minister, Mario Monti, before the end of September. According to press reports, even though the official agenda includes the discussion of the "European situation" in general, Mr Rajoy is likely to use these meetings to press for light conditionality if Spain requests support from the ESF/ESM.

The hope is that the latest action to extend unemployment benefits will not sufficiently irritate Spain's new "creditors" to put a damper in the negotiations.

Note: Portugal and Greece will be watching these negotiations closely to make sure that they didn't get "short-changed" relative to Spain on their own bailout. If the Portuguese politicians feel that Spain got away with a better deal, there may be some push-back on troika to renegotiate the terms.

★ ★ ★ *SOBERLOOK* / **LINK**

Finland is preparing for the break-up of the eurozone, the country's foreign minister warned today.

The Nordic state is battening down the hatches for a full-blown currency crisis as tensions in the eurozone mount and has said it will not tolerate further bail-out creep or fiscal union by stealth.

"We have to face openly the possibility of a euro-break up," said Erkki Tuomioja, the country's veteran foreign minister and a member of the Social Democratic Party, one of six that make up the country's coalition government.

"It is not something that anybody — even the True Finns [eurosceptic party] — are advocating in Finland, let alone the government. But we have to be prepared," he told The Daily Telegraph.

"Our officials, like everybody else and like every general staff, have some sort of operational plan for any eventuality."

"... It is a total catastrophe. We are going to run out of money the way we are going. But nobody in Europe wants to be first to get out of the euro and take all the blame"

Mr Tuomioja's intervention is the bluntest warning to date by a senior eurozone minister. As he discussed the crisis, the minister had a copy of the Economist on his desk. It had a picture of Angela Merkel, the German Chancellor, reading a fictitious report entitled "How to break up the euro", with a caption: "Tempted, Angela?"

"This is what people are thinking about everywhere," said Mr Tuomioja. "But there is a consensus that a eurozone break-up would cost more in the short-run or medium-run than managing the crisis.

"But let me add that the break-up of the euro does not mean the end of the European Union. It could make the EU function better," he said, describing the dash for monetary union in the 1990s as a vaulting political leap in defiance of economic gravity. Finland has emerged as the toughest member of the eurozone's creditor bloc as it tries to hold together a motley coalition. It has insisted on collateral from both Greece and Spain in exchange for rescue loans.

The coalition government is on thin ice as voters peel away to eurosceptic parties. The True Finns shattered the political order in last year's election with 19pc support. "Taxpayers here are extremely angry," said Timo Soini, the True Finn leader.

"There are no rules on how to leave the euro but it is only a matter of time. Either the south or the north will break away because this currency straitjacket is causing misery for millions and destroying Europe's future.

"It is a total catastrophe. We are going to run out of money the way we are going. But nobody in Europe wants to be first to get out of the euro and take all the blame," he said.

AMBROSE EVANS-PRITCHARD / **LINK**

For all you know, Angela Merkel is even now contemplating how to break up the euro. Surely Germany's long-suffering chancellor must be tempted, given the endless euro-bickering over rescues that later turn out to be inadequate. How she must tire of fighting her country's corner, only to be branded weak by critics at home. How she must resent sacrificing German wealth, only to be portrayed as a Nazi in some of the very countries she is trying to rescue.

But for this very practical woman there is also a practical reason to start contingency planning for a break-up: it is looking ever more likely. Greece is buckling (see article). Much of southern Europe is also in pain, while the northern creditor countries are becoming ever less forgiving: in a recent poll a narrow majority of Germans favoured bringing back the Deutschmark. A chaotic disintegration would be a calamity. Even as Mrs Merkel struggles to find a solution, her aides are surely also sensibly drawing up a plan to prepare for the worst...

Begin with Greece. There is a common fallacy, not least in Germany, that dropping the Greeks would be a fairly costless way to teach a useful lesson. In fact the European Central Bank (ECB) owns Greek bonds with a face value of €40 billion ($50 billion), which would be converted into devalued drachma and which Greece might not service. A further €130 billion or so of loans that Greece has received in the bail-out would have to be written down, or written off. The €100 billion of the temporary debts Greece has stacked up in the ECB's payments system would crystallise into a loss. Add in a one-off grant of say €50 billion to tide Greece over—call it conscience-salving "solidarity"—and the bill might come to €320 billion. Estimating the price of a "Grexit" is guesswork, but Germany's share might reach €110 billion of this, about 4% of the country's GDP.

"... Estimating the price of a "Grexit" is guesswork, but Germany's share might reach €110 billion of this, about 4% of the country's GDP."

At first sight that is a bargain, because it would save German taxpayers from an open-ended commitment to Greece. And yet proof of the euro's reversibility will throw markets into a panic. Ireland, Portugal, Cyprus and Spain also all owe investors abroad a net sum of 80-100% of GDP (the gross debt is much larger). One reason why these foreigners have hung on is the belief that the euro cannot break up. Greece's defenestration would turn that calculation on its head, triggering soaring bond yields in southern Europe. Stampeding domestic savers would cause runs on banks. With the single market in peril and depression looming, Mrs Merkel would come under huge pressure to pay whatever it takes to save the rest of the euro zone. She would have no time to negotiate the pan-European federal discipline that she has always demanded as the price for German aid. A rescue would be a blank cheque.

ECONOMIST / **LINK**

It was 3 a.m. on a Wednesday when the machines suddenly ground to a halt at Hydro Aluminium in Hamburg. The rolling mill's highly sensitive monitor stopped production so abruptly that the aluminum belts snagged. They hit the machines and destroyed a piece of the mill. The reason: The voltage off the electricity grid weakened for just a millisecond.

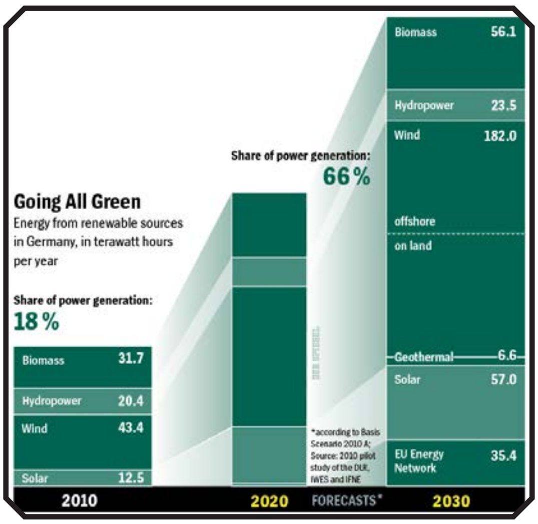
Workers had to free half-finished aluminum rolls from the machines, and several hours passed before they could be restarted. The damage to the machines cost some €10,000 ($12,300).

In the following three weeks, the voltage weakened at the Hamburg factory two more times, each time for a fraction of second. Since the machines were on a production break both times, there was no damage. Still, the company invested €150,000 to set up its own emergency power supply, using batteries, to protect itself from future damages.

"It could have affected us again in the middle of production and even led to a fire," said plant manager Axel Brand. "That would have been really expensive."

At other industrial companies, executives at the highest levels are also thinking about freeing themselves from Germany's electricity grid to cushion the consequences of the country's transition to renewable energy.

Likewise, as more and more companies with sensitive control systems are securing production through batteries and generators, the companies that manufacture them are benefiting. "You can hardly find a company that isn't worrying about its power supply," said Joachim Pfeiffer, a parliamentarian and economic policy spokesman for the governing center-right Christian Democratic Union (CDU).



CLICK TO ENLARGE SOURCE: DER SPIEGEL

Behind this worry stands the transition to renewable energy laid out by Chancellor Angela Merkel last year in the wake of the Fukushima nuclear disaster. Though the transition has been sluggish so far, Merkel set the ambitious goals of boosting renewable energy to 35 percent of total power consumption by 2020 and 80 percent by 2050 while phasing out all of Germany's nuclear power reactors by 2022.

The problem is that wind and solar farms just don't deliver the same amount of continuous electricity compared with nuclear and gas-fired power plants. To match traditional energy sources, grid operators must be able to exactly predict how strong the wind will blow or the sun will shine.

But such an exact prediction is difficult. Even when grid operators are off by just a few percentage points, voltage in the grid slackens. That has no affect on normal household appliances, such as vacuum cleaners and coffee machines. But for high-performance computers, for example, outages lasting even just a millisecond can quickly trigger system failures.

A survey of members of the Association of German Industrial Energy Companies (VIK) revealed that the number of short interruptions to the German electricity grid has grown by 29 percent in the past three years. Over the same time period, the number of service failures has grown 31 percent, and almost half of those failures have led to production stoppages. Damages have ranged between €10,000 and hundreds of thousands of euros, according to company information.

★ ★ ★ *DER SPIEGEL* / **LINK**

One of the nation's top credit rating agencies said Friday that it expects more municipal bankruptcies and defaults in California, the nation's largest issuer of municipal bonds.

Moody's Investors Service said in a report that the growing fiscal distress in many California cities was putting bondholders at risk.

The service announced that it will undertake a wide-ranging review of municipal finances in the nation's most populous state because of what it sees as a growing threat of insolvency.

The report has both investors and government leaders worried.

Three California cities — Stockton, San Bernardino and Mammoth Lakes — have filed for bankruptcy so far this year. They are not likely to be the last, Moody's said.

Moody's reports that some cities are turning bankruptcy as a new strategy to take on budget deficits and avoid obligations to bondholders, an emerging dynamic that could have ripple effects throughout the investment community.

The municipal bond market has long been characterized by low default rates and relatively stable finances, Moody's said, but that outlook is beginning to change as bankruptcy becomes a tool for cash-strapped cities.

As a result, the agency will reassess the financial position of all cities in California, which issues about 20 percent of the municipal bond volume nationwide, "to reflect the new fiscal realities and the governmental practices."

> "... some cities are turning bankruptcy as a new strategy to take on budget deficits and avoid obligations to bondholders, an emerging dynamic that could have ripple effects throughout the investment community"

The agency also will examine the outlook for municipal bonds in other troubled states, according to Robert Kurtter, managing director of public finance at Moody's.

Moody's would not say which states it will review, though Kurtter mentioned Michigan and Nevada as possibilities. Friday's report noted that cities across the country are in financial distress but said that a greater share of bankruptcies are expected in California.

In California, officials rushed to downplay the report.

"Moody's has an obligation to review changing circumstances, but we would just suggest that their assessment of the framework and ground activities is perhaps exaggerated," said Chris McKenzie, executive director of the League of California Cities.

The state treasurer's office also cautioned against overacting to three bankruptcies among California's 482 cities.

"No city's going to blithely skip into bankruptcy court to avoid its obligations," said treasurer's office spokesman Tom Dresslar, who called the report "a little hyperbolic."

More than 10 percent of California cities have declared fiscal crises, according to the Moody's, with the most troubled areas lying inland in the middle of the state and east of the Los Angeles area.

★ ★ ★ *AP* / **LINK**

There used to be a time when Italy's super-rich gravitated to the smartest enclaves of Sardinia for a summer of relaxation and luxury. Not any more. In an increasingly austerity-conscious country, the yacht-owning classes are coming under increasing and unwelcome scrutiny, some of which would not look out of place in a scene from the film Apocalypse Now.

"We first spotted the targets with the helicopter's radar and closed in to identify about 50 boats off the two islands," said Italian coastguard captain Pietro Mele, describing a recent raid on yachts suspected of straying too close to the coast. Swooping in, the helicopter crew barked orders to the plush pleasure craft through a loudspeaker, telling them to move on from the protected Sardinian islands of Soffi and Mortorio, where anchoring is strictly forbidden.

It was hardly an act of war, but the tough measures have been enough to spark a furious reaction from royalty, actors and entrepreneurs who keep their yachts on the nearby Costa Smeralda and are now threatening to move on to Corsica or France's Côte d'Azur.

"These helicopter raids are a huge problem and many yachts won't be back to Sardinia any time soon," said Roberto Azzi, who runs a rental agency called Emerald Yachts.

The helicopter raids top a terrible summer for Italy's upmarket sailors, who have suffered regular visits from tax inspectors instituting prime minister Mario Monti's crackdown on tax avoidance. "We are 30% down this season," complained Azzi.

> "... The helicopter raids top a terrible summer for Italy's upmarket sailors, who have suffered regular visits from tax inspectors instituting prime minister Mario Monti's crack-down on tax avoidance"

The two islands have long been favourite spots for boats heading out from the swish port of Porto Rotondo, which is popular with rich Italians, Russian magnates and Arab sheikhs. Among those up in arms about being turfed out were German and Italian princes, as well as former Formu la 1 racing driver Alessandro Nannini. "Yachtsmen pass the word around and get out before the checks start," he told Corriere della Sera. "But that's got to stop. Something has to change, or I am not going back."

Azzi admitted that the islands have long been officially out of bounds, but the boats had flocked there anyway. "And now, with the crisis on, they go and send in a helicopter? The rules are arbitrary and there are 2,000 people employed in the business here who stand to lose their jobs if the yachts flee.

"The anchoring damages the sea grass, but there is a group who ignore the ban," responded a spokesman for the Maddalena archipelago national park, which manages the islands.

"They know the rules, but we are in Italy; they are on holiday," said Mele, who broadcast the message, "You are in a forbidden area, please move on," from the coastguard helicopter to the sunbathing tycoons. "Unfortunately some thought we would go away and did not move, so we sent a patrol vessel in as well," he said.

★ ★ ★ *UK GUARDIAN* / **LINK**

If you pay attention either to China or the art market, you've probably heard the story: China last year became – according to art industry experts – the world's largest market for art and antiques, surpassing the USA.

Well, here's a shocker: it isn't. Not even close.

Of course, you probably suspected as much: but the reasons are only now becoming clear. Exclusive interviews over the past several weeks with Chinese art dealers, auction house officials and others reveal a level of corruption significant even by Chinese standards, and more, the potential global dangers of an art market now at unprecedented heights – and growing.

I first had a whiff of the real story in March, when art market expert Clare McAndrew, speaking at The European Fine Art Fair in Maastricht, mentioned that many of the major purchases at Chinese auctions – which represent the vast bulk of China's art market activity – were going unpaid. It is, after all, one thing to announce a multi-million dollar sale; it is entirely another actually to make it. And if buyers aren't paying, China isn't number one, after all.

But defaults on purchases can happen anywhere, even at Sotheby's or Christie's auctions in London and New York, historically the two centers for art market activity, and the largest auction markets internationally. What makes China different?

The answer, according to those I've talked to, revolves chiefly around China's largest auction house, Poly Auctions, based in Beijing. While Chinese collectors are well aware, most Westerners do not know that government-owned Poly is part of a larger organization that also manufactures weaponry – or rather, as they describe it on their web site:

> *Poly Technologies Inc. is a large-scale defense company authorized by the Chinese Central Government for the import and export of all ranges of defense equipments for Army, Navy, Air Force, police and anti-terrorism. Since its establishment in 1984, Poly Technologies, Inc. has devoted itself to the equipment modernization for the Chinese force and the friendly nations in the world, actively participated in the R&D of military products, extensively engaged in the import and export of military equipment and technology, and provided military equipment and technology.*

"... Poly is the auction arm of the People's Liberation Army. Doesn't every army have an auction arm?"

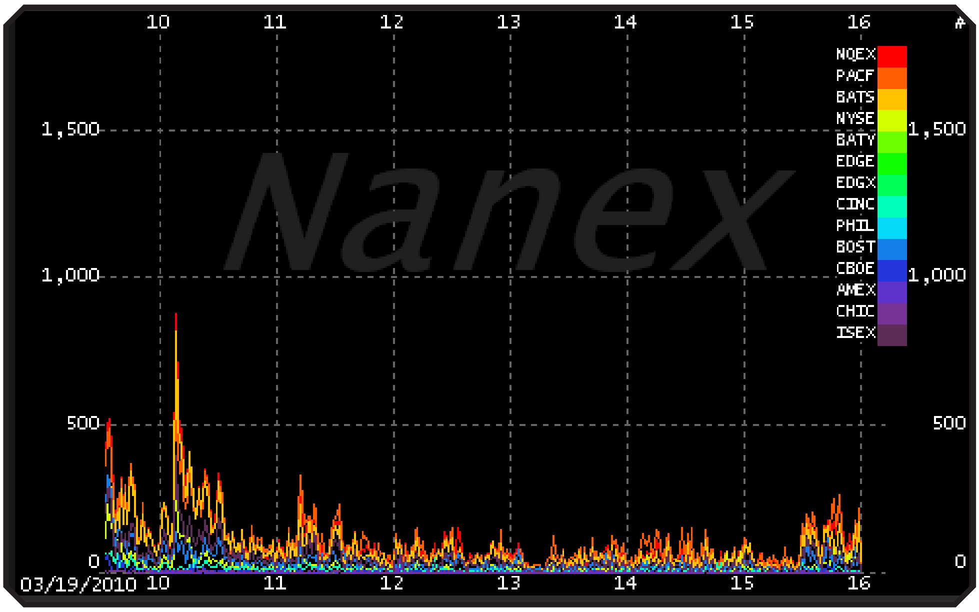
More specifically, according to Nancy Murphy, an art lawyer based in Beijing, "Poly is the auction arm of the People's Liberation Army. Doesn't every army have an auction arm?" While she admits it's possible that "the PLA has spun the auction house off so it's legally a stand-alone entity, its home page says 'we are the fine art auction home of the People's Liberation Army. Our goal is to bring the people's art back to China.'"

That your purchases at Poly are helping to feed China's military and oppression machine is bad enough; but worse, according to many familiar with China's auction racket, you may be getting taken in the process – even if you've never bought anything from Poly. Artificially-inflated prices and manipulated sales have so disrupted the values for Chinese art and antiques that the true value of many of them remains unclear – meaning that buyers of Chinese art, antiques and antiquities worldwide are likely to pay far more for things than they're worth. (And that's before we calculate the explosive growth of fakes, which comprise, according to Murphy, as much as eighty percent of the material offered at Poly and a fair share of what one finds even at more respectable houses, like China's number two auctioneer, China Guardian.)

Basically, there appear to be a pair of schemes through which such manipulations take place, both often geared either toward money laundering or the bribing of government officials, according to Murphy and Melanie Ouyang Lum, an American dealer in Chinese art based, until recently, in Shanghai and Beijing. Observed Lum, "the results at Poly are staggering. There's a sense that they are creating a facade to encourage people from in and outside of China to invest in China's art market, not real estate and bonds. If China is going to keep money in China, it needs strong investment vehicles."

Among the more common schemes is one used chiefly to assist in bribes or in the building of art exchanges and investment trusts popular among Chinese investors. According to both Murphy and Lum, Poly (and possibly others) frequently guarantee sellers that an item attain a certain price – and then allow the seller himself to bid. Should general bidding stop below the level of the guarantee, the seller will bid the guaranteed amount, establishing a false but recorded value for the work. But since, as an officer of a competing auction house remarked, "you don't pay yourself," sellers in these cases pay only a small commission to Poly – a meager sacrifice for the reward of making a $50,000 antique soar to ten times its actual value literally overnight.

★ ★ ★ *FORBES* / **LINK (THANKS MAC)**

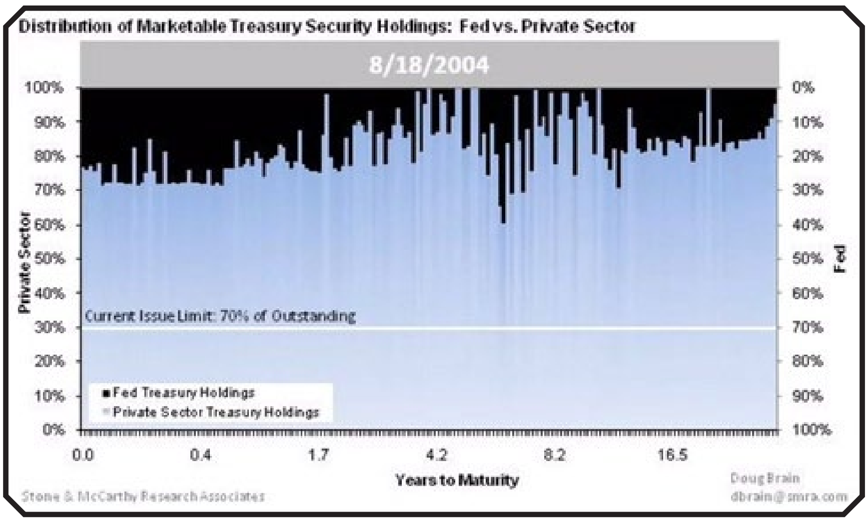


CLICK TO VIEW

SOURCE: IMGUR

This page shows in two short video clips how automated trading has taken over US stock exchanges and the Federal Reserve has taken over the long end of the US government bond market.

Above, a decade-long 'Rise of the Machines'. Below, nine years of creeping Fed intervention in what is supposed to be the largest, most liquid market on the face of the planet.



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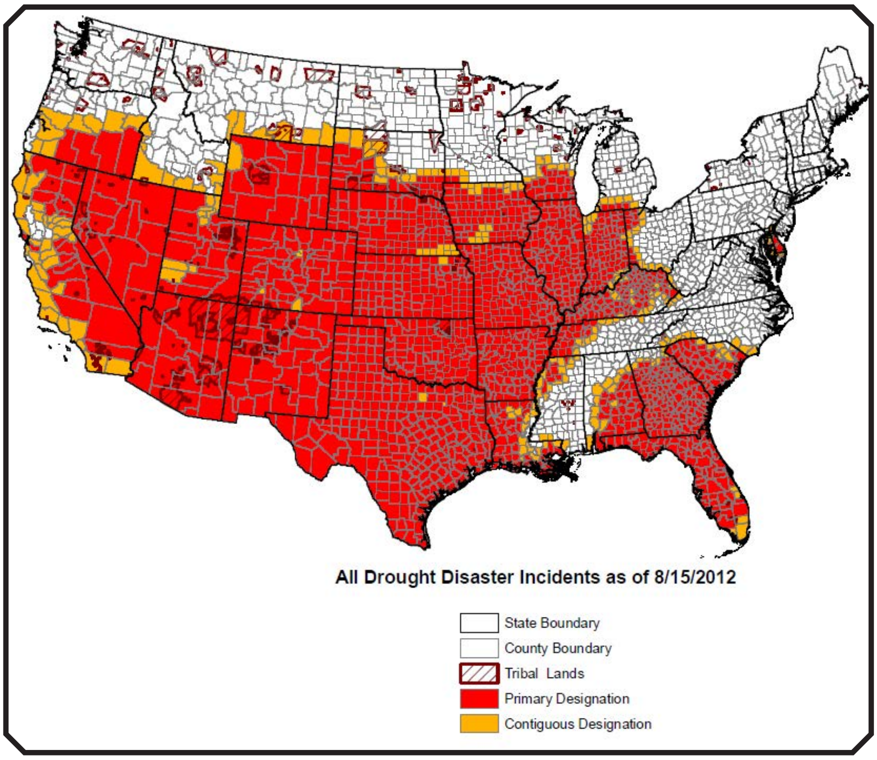
SOURCE: VIA ZEROHEDGE

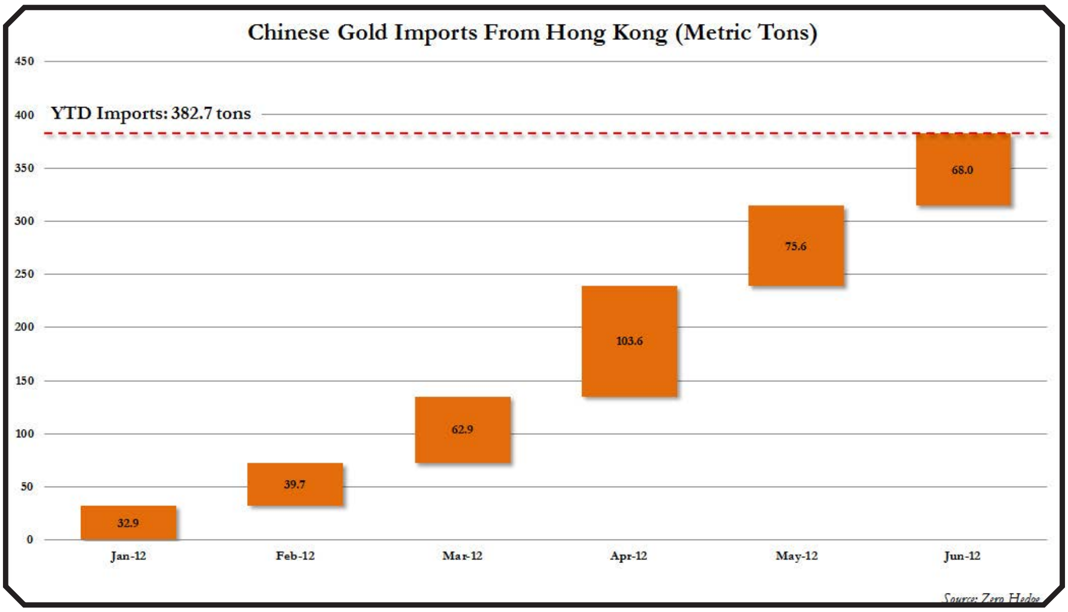


CLICK TO ENLARGE

SOURCE: RITHOLTZ

A Map of the drought affecting the United States. No words necessary.

China's voracious appetite for gold continues unabated. Sooner or later, the implications of this chart are going to cause utter havoc in the world's gold markets. Until that day arrives, the Chinese are scratching their heads in wonderment and buying every ounce they possibly can and they will continue to do so.



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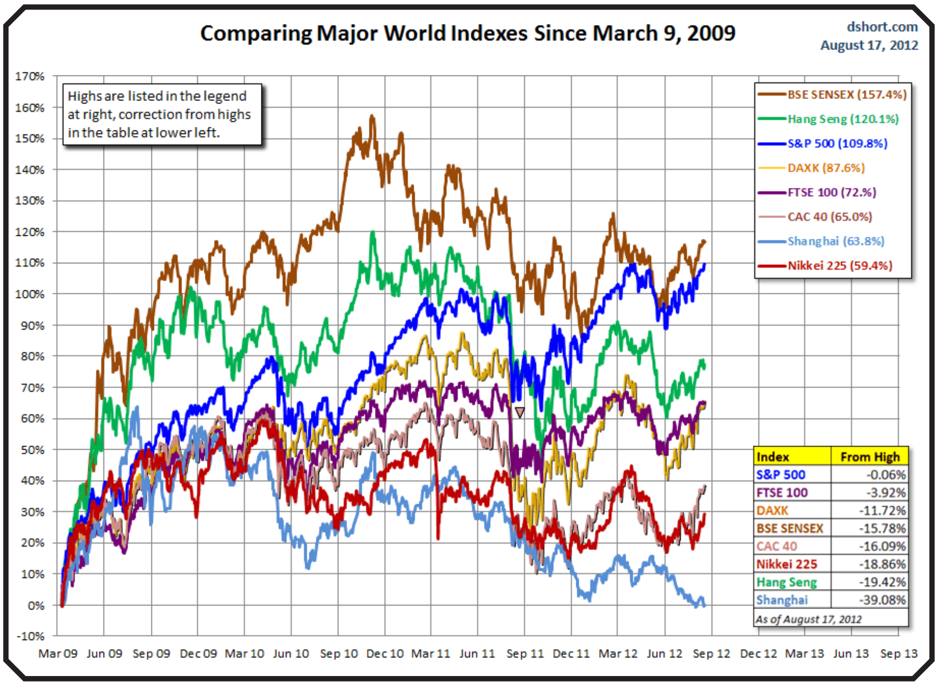

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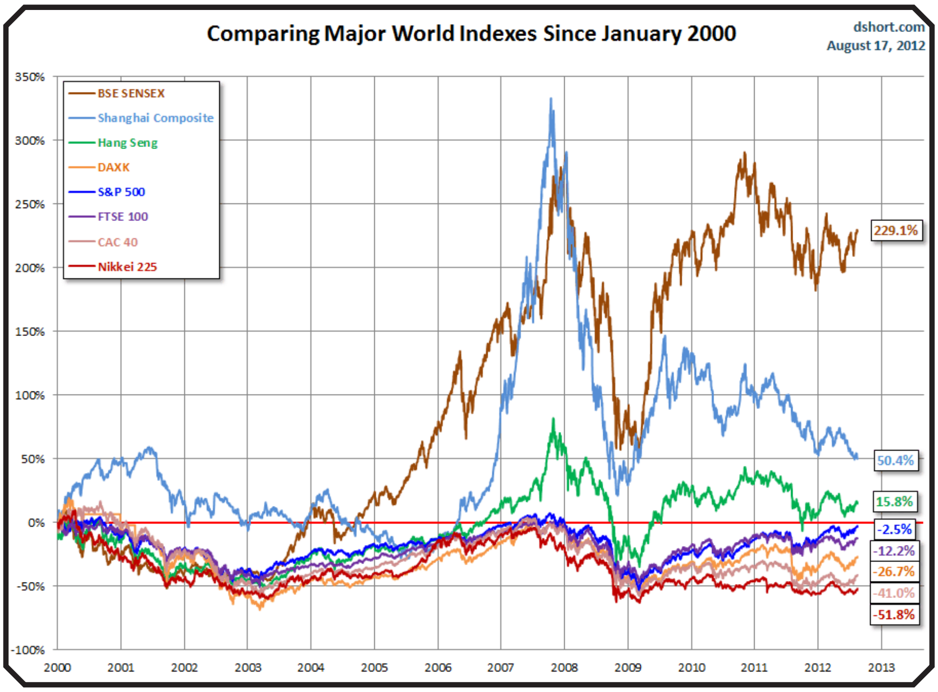
SOURCE: DSHORT

The chart [left] illustrates the comparative performance of World Markets since March 9, 2009. The start date is arbitrary: The S&P 500, CAC 40 and BSE SENSEX hit their lows on March 9th, the Nikkei 225 on March 10th, the DAX on March 6th, the FTSE on March 3rd, the Shanghai Composite on November 4, 2008, and the Hang Seng even earlier on October 27, 2008. However, by aligning on the same day and measuring the percent change, we get a better sense of the relative performance than if we align the lows.

Here is the same chart starting from the turn of 21st century. The relative over-performance of the emerging markets (Shanghai, Mumbai SENSEX, Hang Seng) is readily apparent, especially the SENSEX, but the trend over the past two years has not been their friend (make that three years for the Shanghai).

DOUG SHORT / **LINK**



CLICK TO ENLARGE

SOURCE: DSHORT

CLICK TO WATCH

Jim Rickards recently visited Australia and, whilst in Sydney, sat down with my friends at ABC for a chat with the wonderful Ticky Fullerton about his book 'Currency Wars'.

This is the complete interview and, as always, Jim offers an excellent perspective on the world in which we live.

(Thanks Peter)

The ever-insightful Bill Fleckenstein (who regular readers know I hold in the very highest regard) explains how financial gravity will re-exert itself at some point and outlines just how big of a problem that will be for the Federal reserve.

Fleck also weighs in on the recent improvement in the price action of gold mining stocks.

CLICK TO LISTEN

CLICK TO WATCH

At the risk of turning this into the Nigel Farage page, here is the leader of the UKIP once again—this time appearing on Fox Business News in the United States (where he is developing something of a cult following).

Nigel's targets are the usual suspects (Monti, Barosso, van Rompuy etc.) but, as ever, he is as entertaining as hell as he explains how European leaders are living in Noddyland and weighs up his chances of beating Tiger Woods at golf.

When Nigel stops saying things that are worth listening to, I promise I'll stop including him on this page..... it may be a while though.

Army vehicle disappears

AN Australian Army vehicle worth $74,000 has gone missing after being painted with camouflage.

Police are seeking public help to find the four-wheel drive, which was

Hmmm…

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Grant Williams

Grant Williams is a portfolio and strategy advisor to Vulpes Investment Management in Singapore - a hedge fund running over $250million of largely partners' capital across multiple strategies.

The high level of capital committed by the Vulpes partners ensures the strongest possible alignment between us and our investors.

In Q4 2012 we will be launching the Vulpes Agricultural Land Investment Company (VALIC), a globally-diversified agricultural land vehicle which will provide truly diversified exposure to the agricultural sector through a global portfolio of physical farmland assets.

Grant has 26 years of experience in finance on the Asian, Australian, European and US markets and has held senior positions at several international investment houses.

Grant has been writing 'Things That Make You Go Hmmm.....' since 2009.

For more information on Vulpes please visit www.vulpesinvest.com

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California Investment Conference 2012 Presentation: 'Simplicity': Part I : Part II

As a result of my role at Vulpes Investment Management, it falls upon me to disclose that, from time-to-time, the views I express and/or the commentary I write in the pages of *Things That Make You Go Hmmm.....* may reflect the positioning of one or all of the Vulpes funds - though I will not be making any specific recommendations in this publication.

Grant

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