

THINGS THAT MAKE YOU GO *Hmmm...*

A walk around the fringes of finance



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“We are the hollow men
We are the stuffed men
Leaning together
Headpiece filled with straw. Alas!
Our dried voices, when
We whisper together
Are quiet and meaningless
As wind in dry grass
Or rats’ feet over broken glass
In our dry cellar

.....

Shape without form, shade without colour,
Paralysed force, gesture without motion;

.....

This is the way the world ends
This is the way the world ends
This is the way the world ends
Not with a bang but a whimper.”

– T.S. ELIOT, *THE HOLLOW MEN*

“He did not know that a keeper is only a poacher
turned outside in, and a poacher a keeper turned
inside out.”

– Charles Kingsley

Frank Abagnale, Jr. has paid his debt to society.



That debt ultimately amounted to less than five years spent languishing in a US federal prison but not before he was passed around Europe by a litany of disgruntled countries; spending 6 months in squalid conditions in the notorious ‘House of Arrest’ in Perpignan, France and a further six months in a prison in Malmö, Sweden from whence he was slated to be sent to Italy for yet another trial when a compassionate Swedish judge asked the US State Department to revoke his passport—a step which compelled the judge to deport Abagnale back to the United States.

Prior to his capture in France at the tender age of 21, Abagnale had passed \$2.5million in forged checks across 26 countries over the course of five years in the 1960s. Abagnale’s crime spree began when he was just 16 years old and, at various points in time, involved his posing as, amongst other things, a doctor (he somehow spent eleven months impersonating a chief resident pediatrician in a Georgia hospital under the alias Frank Connors) and an attorney (Abagnale forged a Harvard University law transcript then sat and passed the bar exam of Louisiana at age 19), but it was by posing as a Pan-Am pilot that Abagnale had his greatest success; flying over 1,000,000 miles on over 250 flights to those 26 countries at Pan Am’s expense by ‘Deadheading’, and passing bad checks in just about all of them.

The ever-resourceful Abagnale refused, however, to go gently into that good night and, during his deportation, he successfully pulled-off a daring escape:

(Wikipedia): Abagnale escaped from a British VC-10 airliner as it was turning onto a taxi strip at New York’s JFK International Airport. Under cover of night, he scaled a nearby fence and hailed a cab to Grand Central Terminal. After stopping in The Bronx to change clothes and pick up a set of keys to a Montreal bank safe deposit box containing US\$20,000, Abagnale caught a train to Montreal’s Dorval airport to purchase a ticket to São Paulo, Brazil, a country with which the U.S. had no extradition treaty. On his way to Montreal, he had a close call at a Mac’s Milk in Dundas, Ontario. He was later caught by a constable of the Royal Canadian Mounted Police while standing in line at the ticket counter and subsequently handed over to the U.S. Border Patrol.

Uneventful, Abagnale’s life most certainly wasn’t.

Whilst awaiting trial after his recapture, Abagnale performed another amazing escape—this time from the Federal Detention Center in Atlanta, Georgia—which was the result of equal parts daring and sheer good fortune:

(Wikipedia): In a stroke of luck that included the accompanying U.S. marshal forgetting his detention commitment papers, Abagnale was mistaken for an undercover prison inspector and was even given privileges and food far better than the other inmates. The FDC in Atlanta had already lost two employees as a result of reports written by undercover federal agents, and Abagnale took advantage of their vulnerability. He contacted a friend (called in his book “Jean Sebring”) who posed as his fiancée and slipped him the business card of “Inspector C.W. Dunlap” of the Bureau of Prisons, which she had obtained by posing as a freelance writer doing an article on “fire safety measures in federal detention centers”. She also handed over a business card from “Sean O’Riley” (later revealed to be Joe Shea), the FBI agent in charge of Abagnale’s case, which she doctored at a stationery print shop. Ab-

gnale told the corrections officers that he was indeed a prison inspector and handed over Dunlap's business card as proof. He told them that he needed to contact FBI Agent Sean O'Riley, on a matter of urgent business.

O'Riley's phone number (actually the number altered by Sebring) was dialed and picked up by Jean Sebring, at a payphone in an Atlanta shopping-mall, posing as an operator at the Federal Bureau of Investigation. Later, he was allowed to meet unsupervised with O'Riley in a predetermined car outside the detention center. Sebring, incognito, picked Abagnale up and drove him to an Atlanta bus station where he took a Greyhound bus to New York, and soon thereafter, a train to Washington, D.C. Abagnale bluffed his way through an attempted capture by posing as an FBI agent after being recognized by a motel registration clerk. Still bent on making his way to Brazil, Abagnale was picked up a few weeks later by two NYPD detectives when he inadvertently walked past their unmarked police car.

Abagnale's incredible story was recounted in his book 'Catch Me If You Can', which I happened to pick up years ago in an airport bookshop without any prior knowledge of either the man or his story and I was riveted. It was clearly the kind of story that lent itself very favourably to Hollywood and, sure enough, Steven Spielberg bought the rights to Abagnale's story and turned it into an enjoyable romp which starred Leonardo DiCaprio. A-list all the way (though, personally, I would heartily recommend [the book](#) over the film. Perfect fodder for those of you who haven't heard the tale and are looking for some very easy Summer reading).

Anyway, I digress. After such a tale, it's extremely hard to believe that Abagnale ended up

serving just 4 years in prison until we examine the reasons why; chief amongst them is the fact that Abagnale made a time-honored move and became what is commonly referred to as a 'poacher-turned-gamekeeper'.

For those of you not familiar with the term, it is used to describe someone who has moved

“... as at December 31, 2011 their AUM had shrunk by a not insignificant ¥2.87 trillion or 2.54% (to continue the GDP comparison, that is like vaporizing the entire Lithuanian economy in nine months). Not good”

from one side of a particular ledger to another; with the most common implication being that the move has been made from the wrong side of some form of the law to the right side. In Abagnale's case, he went from being one of the world's most-wanted fraudsters to being employed as

a consultant by the FBI, using his 'expertise' to help pursue and apprehend forgers, swindlers and imposters.

In more general terms, however, the phrase is used to convey a switch from one form of behaviour to another which are, invariably, diametrically opposed to each other.

This week we saw one such move which seemed to fly under the radar for the most part, but which, I suspect, may in time be seen as an event that marked the beginning of an end.

The Government Pension

Investment Fund, Japan (GPIF) does pretty much exactly what it says on the tin, i.e. it is the pension fund for Japanese public sector employees.

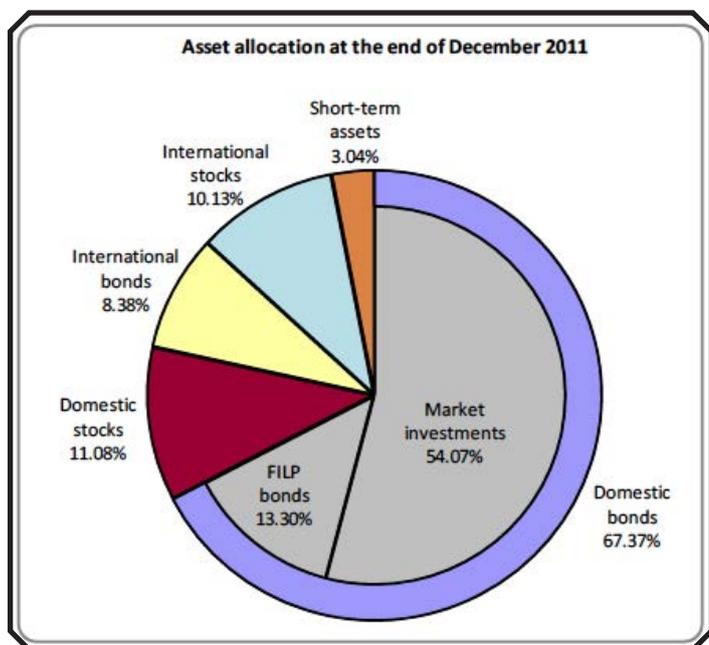
It is also the largest such institution in the world and has assets under management that total a truly staggering ¥108 trillion (\$1.5 trillion). To put that sum in perspective, it is roughly the same as the GDP of Canada... or Russia.

The first three quarters of 2011 weren't so kind to GPIF, unfortunately, and, as at December 31, 2011 (the Japanese fiscal year ends on March 31) their AUM had shrunk by a not insignificant ¥2.87 trillion or 2.54% (to continue the GDP

comparison, that is like vaporizing the entire Lithuanian economy in nine months). Not good.

A look at the performance of the various investments held by the GPIF demonstrates just how hard it is to invest in the current environment as they showed losses in domestic stocks (-15%), international stocks (-16%) and international bonds (-4%). Fortunately, the one bright spot in their portfolio happened to be their single largest allocation; domestic bonds, which gained a comparatively whopping 2.5%.

A look at the breakdown of GPIF's portfolio is highly illustrative:



SOURCE: GPIF (JAPAN)

As you can see, almost 70% of the ¥108 trillion in the GPIF's coffers is sitting in domestic bonds.

That's roughly ¥75 trillion or \$1 trillion in Japanese bonds which sat quietly on GPIF's balance sheet.

Historically, GPIF has been one of the largest buyers of Japanese government debt and has done more than its fair share to confound those who have predicted Japan's day of reckoning; including Kyle Bass who has been waiting an awfully long time for his view on Japan to play out as he expected.

In his letter to investors dated November 2011, Bass wrote:

We believe the debts of the following nations, among others, are not sustainable in the current economic environment: Greece, Italy, Japan, Ireland, Iceland, Japan, Spain, Belgium, Japan, Portugal, France and, have we mentioned Japan?

No mixed messages there.

As can be seen from the names on that list, despite Japan's stubborn refusal to play ball, Kyle still has a pretty good batting average, but on Thursday, his chances of looking very good indeed increased significantly when one of Japan's biggest poachers announced that they had turned gamekeeper, or, more accurately, one of Japan's biggest buyers of government debt had rather troublingly, turned seller:

(Bloomberg): Japan's public pension fund, the world's largest, said it has been selling domestic government bonds as the number of people eligible for retirement payments increases.

"Payouts are getting bigger than insurance revenue, so we need to sell Japanese government bonds to raise cash," said Takahiro Mitani, president of the Government Pension Investment Fund... "To boost returns, we may have to consider investing in new assets beyond conventional ones," he said in an interview in Tokyo yesterday... The fund needs to raise about 8.87 trillion yen this fiscal year, Mitani said in an interview in April. As part of its effort to diversify assets and generate higher returns, GPIF recently started investing in emerging market stocks.

Japan's demographic nightmare has always been the bedrock of the case outlining why the country's massive debt—accumulated over twenty painful years—would eventually cripple it, but the problem with demographics as an investment case is that most people can't even begin to think that far ahead and will readily assume that, because such events are decades in the future, they will be solved long before they become a real problem.

Let's take a look at the dynamics (for want of a better word) of Japan's population.

According to official figures published in July 2011, the population of Japan is 127,368,088 (quite an accurate estimate, I think you'll agree) which makes it the 10th most populous nation on Earth and the table below gives the breakdown of the various components of that number:

So far, so good.

Age	% Of Population	Males (Millions)	Females (Million)
0-14	13.1%	8.5	8.0
15-64	64%	40.8	40.1
65+	22.9%	12.3	16.6

SOURCE: CIA FACTBOOK

But when we dig a little deeper, Japan's problems start to bubble to the surface as the numbers in this next table demonstrate:

Category	#	World Rank
Population Growth Rate	-0.077%	199
Birth Rate (per Thousand)	8.39	216
Death Rate (Per Thousand)	9.15	63
Net Migration Rate (per Thousand)	0	91

SOURCE: CIA FACTBOOK

Japan's birth rate per thousand places it, interestingly enough, just ahead of Germany, Singapore and Hong Kong, but then the tail-enders really kick in with Christmas Island, Niue (who knew?), Tokelau, Pitcairn Islands and Norfolk Island—all amazingly enough sporting a negative birth rate of exactly 9 per 1000—firmly bringing up the rear.

How far down the pecking order does Japan's birth rate standing of 216th place it? Well the UN officially recognizes 192 countries while the US State Department includes 2 more in its 194.

The change in the structure of Japan's population over the past 50 years is starkly reflected in the country's population pyramid which looks ever more shaky with each passing year while the forecasts for 2050 are, frankly, frightening (chart, above).

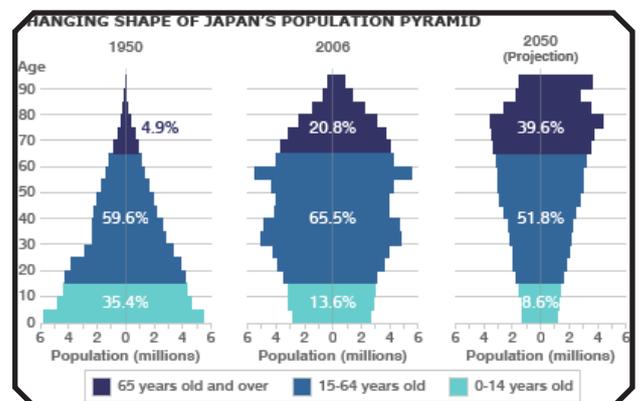
By 2050, Japan's population is projected to fall to 90m. Incredibly, as recently as 1990, the number of working Japanese was three times that of both children AND the elderly.

In 2011, Japan's budget for social welfare was ¥90 trillion but that was at least ¥1 trillion short of where it needed to be, precipitating further issuance of government bonds and that, on top of the increased strain caused by the Kansai tsunami has Japan's bond market teetering on the edge of implosion—still.

A 2011 report from the National Institute of Population and Social Security Research (could that BE any more Japanese?) shed some light on just how fast things could deteriorate from here:

The proportion of children under 15 will shrink from 14.6% of the population in 2000 to 12% in 2021, 11% in 2036 and 10.8% in 2050.

Meanwhile, those of working age (15-64) amounted to 68.1% of the population in 2000, and their proportion is expected to decline to 60% in 2020, 58% in 2035 and 53.6% in 2050.



[CLICK TO ENLARGE](#)

SOURCE: FOREIGNPOLICY

The only clear rising trend is the aged (65 and above), who will grow from 17.4% of the population in 2000 to 25% in 2014.

The number of elderly will continue to rise while the total population drops so that in 2050 the aged will account for a whopping 35.7% of a population estimated to number only 101 million.

Trouble, folks.

The wonderful Dylan

Grice of Société Générale in London is, in my opinion, one of the most astute observers of the Japanese meltdown and, to boot, he has a gift with words that borders on the sublime. Here he is, waxing lyrical on Japan's problems in his 'Popular Delusions' piece under the title 'A Global Fiasco Is Brewing In Japan':

Japan's government borrows from Japanese households and has done for decades. But Japanese households are retiring, and traditionally retirees run down their savings. So who will fund Japan's future deficits, which are already within the range identified by inflation historian Peter Bernholz as hyperinflation 'red flags'? Twenty years ago, who could predict long-term JGB yields below 1%? Who sees uncontrolled inflation as the primary risk facing Japan today?

Don't listen to fiscal scare stories - Japan proves that governments can borrow for as long as they like! Or does it? In the past, the Japanese government had a captive domestic market in which to place its debt. A large pool of domestic

savers, made cautious by prior painful experience with risk assets and an increasingly fragile economy, was happy to own as much government debt as possible. After all, the JGB market was the one consistently good performer.

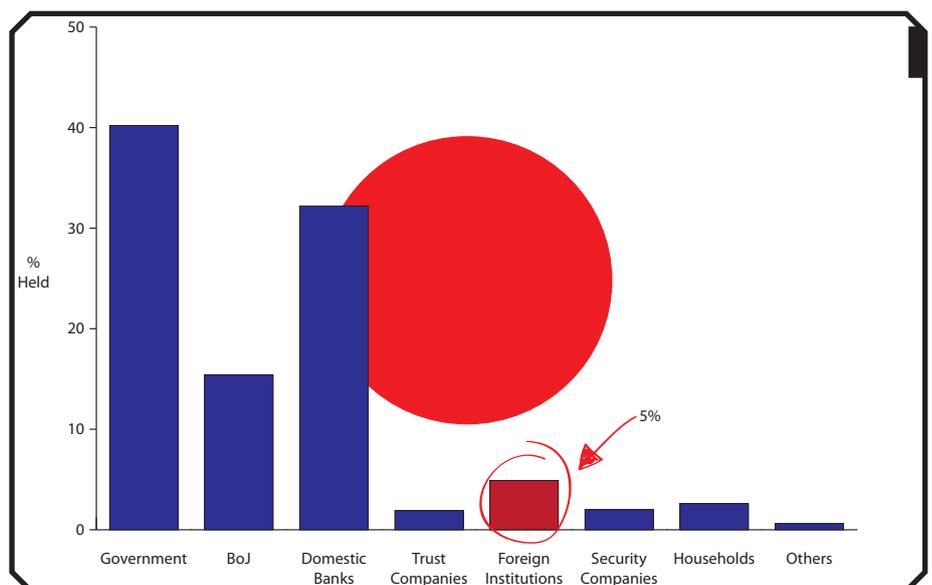
But those savers are now retiring, and running down their assets. Who will finance Japan's government deficit in their place?

Who Indeed? Oh, perhaps I ought to point out that Dylan wrote this particular piece way back in 2010... these things really do tend to go on longer than even the brightest minds imagine.

But as long as Japan has tantalized and confounded those who have called for a dramatic collapse, this week's startling admission by the GPIF may well come to be seen as a turning point.

Whilst the heavy domestic funding and negligible foreign holdings of Japan's government debt have been its saviour over the last twenty years (see chart, below), it was always going to be the case that when Japan's pension funds began to need to sell their holdings, the problems would multiply in their complexity very quickly. We appear to have reached that tipping point—albeit very, very quietly.

Exacerbating the situation are Japan's other



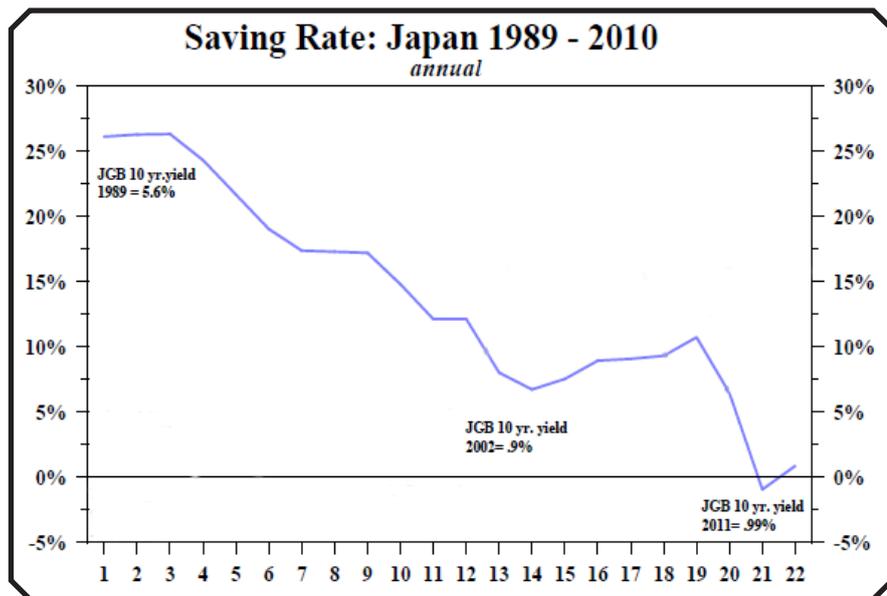
SOURCE: BANK OF JAPAN/TTMYGH

problems; stagnating tax revenue and rapidly-diminishing savings rates which, as the graph below shows, have plummeted from 25% in 1989 to just above 0% today. The rate dropped precipitously in 2008 and briefly went negative in 2009/2010 before inching higher again.

costs. It currently spends over 50% of those tax revenues in such a fashion and it would only take an increase in borrowing costs to 2% for that figure to reach 100% (chart, next page). At that point, you can finally stick a fork in Japan.

The fact that this year Japan has recorded its first year-on-year trade deficit since 1980 (chart, bottom left) has just thrown another log on the smouldering embers just waiting to ignite beneath the Land Of The Rising Sun.

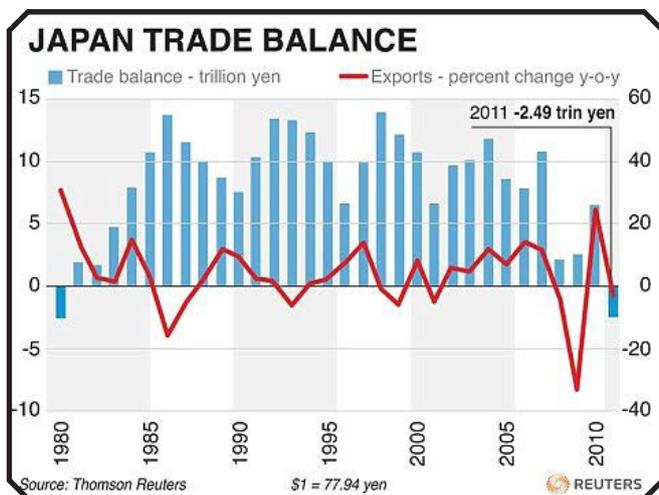
As Japan's savings have declined, its current account surplus has also deteriorated to the extent that, this past May saw the smallest such figure (¥215 bln) since 1985 as rising energy costs in the wake of the post-Fukushima shutdown of Japan's nuclear industry and the continued strength of the Yen as a 'safe haven' combined to form a dangerous one-two punch that is exacerbating Japan's precarious situation.



SOURCE: CABINET OFFICE JAPAN

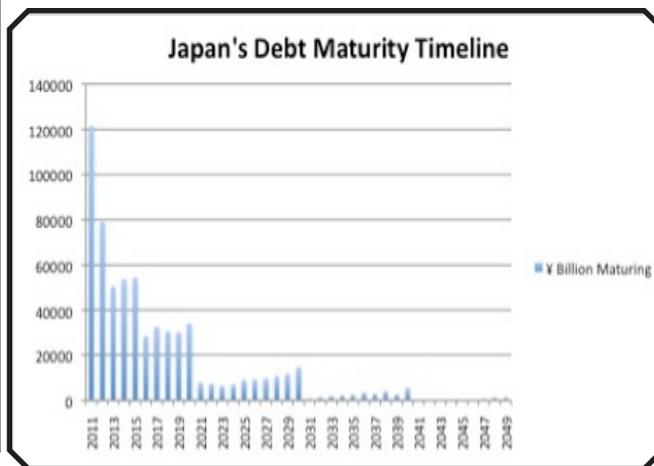
Should Japan need to fund itself externally, it is every Japan-watcher's base-case that it will need to offer substantially higher rates in order to be able to do so and, with the mountain of debt under which Japan is currently foundering and the tiny amount of room it has before its tax revenues are eaten up by its debt-servicing

Want more? Well, take a look at Japan's debt maturity profile (below, right) which demonstrates the sheer weight of debt they have coming due in the next few years, along with an average maturity of 6 years (shorter than that of Portugal, Ireland, Italy, Greece and Spain—someone really ought to come up with a snappy acronym for those guys—oh, and... France).



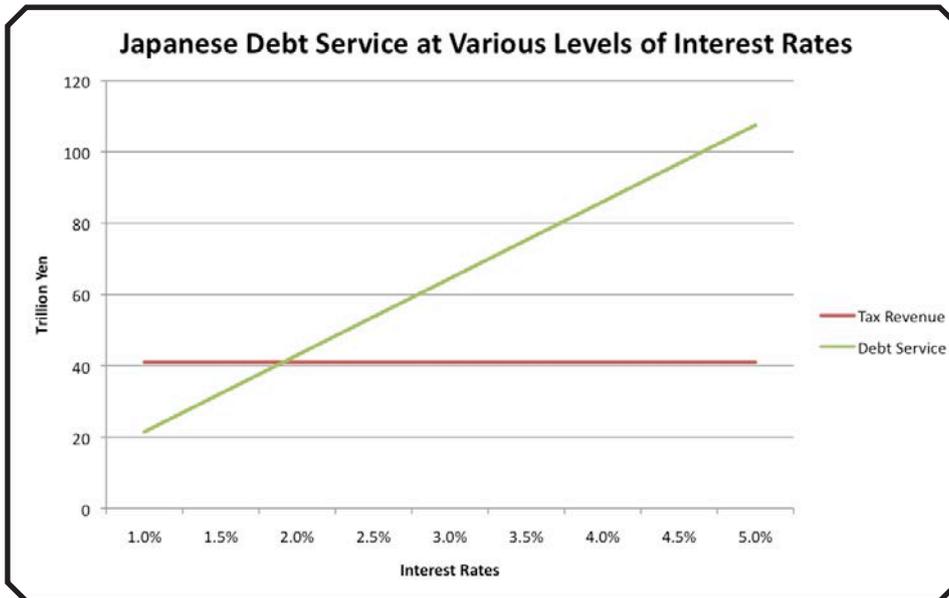
CLICK TO ENLARGE

SOURCE: REUTERS



CLICK TO ENLARGE

SOURCE: TRYFREEDOM



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SOURCE: TRYFREEDOM

In fact, over the next five years, 60% of Japan's massive debt burden will need to be rolled over and it really is as simple a matter as 'the market' suddenly and arbitrarily deciding that it wants Japan to pay more to borrow money. Once that cycle starts in earnest, as my friend P-Man would say, "it's Katy, bar the door"!

Still not had enough? Well the chart below, from Plan B Economics shows two worrying trends in motion; declining government revenues and increasing debt service. The chart

only goes as far as 2010, but those two lines are moving inexorably towards each other and when they meet, it's BIG trouble.

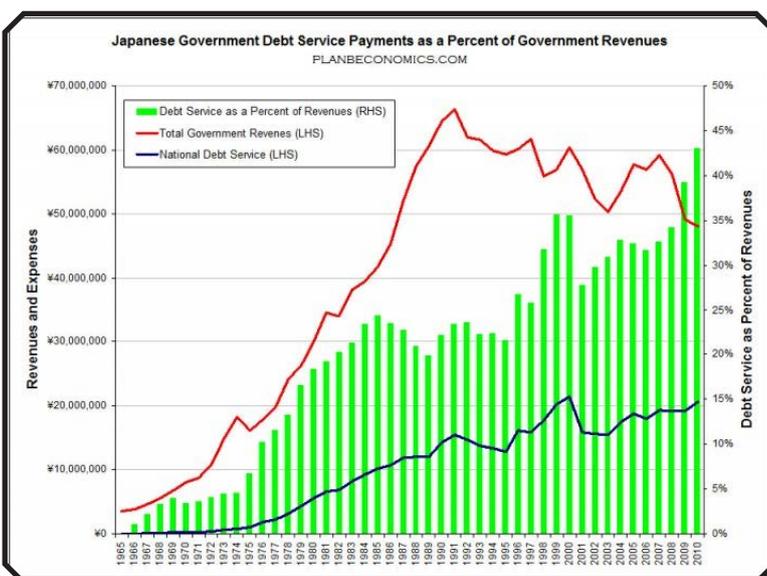
Ultimately, the country's fate may not even be in its own hands as contagion from a bond market meltdown in Europe could quickly spread to Japan and tip things over the edge; markets can just be capricious sometimes. Yes, Japan has a printing press that it has used in the past and will undoubtedly use again, but this time, Japan is not alone in pursuing QE and so the world may not be so forgiving once

they turn on the presses full speed.

When asked by an Australian journalist earlier this year how he thought Japan's denouement would look, Dylan Grice had a clear vision; hyperinflation.

(Money Morning): Ask the average strategist what will happen in Japan and your eyes will glaze over long before your mind can process the technicalities and ifs and buts of the answer. Ask Dylan and he'll tell you that it will end in a hideous bout of hyperinflation that will take the Nikkei from its current level of 9,662 to 40,000. The country is basically bankrupt, has awful demographics (too many old people, not enough workers), and already spends over 50% of tax revenue servicing its debt. So it is heading for a fiscal crisis, a money-printing binge and an end-game that comes with a currency collapse à la Israel in the 1980s.

I ask when this will kick off. He doesn't know – this kind of stuff isn't predictable. His best guess? "Within the next five to ten years." So is there a way that Japan can stop this happening? What would he do if he were in charge? He "would resign." ...Under those circumstances he would note that Japan is



[CLICK TO ENLARGE](#)

SOURCE: PLAN B ECONOMICS

an “undertaxed economy” and he would gradually raise taxes – first consumption tax and then property taxes. He’d phase it in over a number of years to minimise the pain. He would “effectively engineer a depression.”

Any way out that doesn’t involve a depression? No. And even if there were, Japan’s politicians would mess it up. They are, says Dylan, so dysfunctional that even just after the nuclear disaster they were “trying to score points off each other.” If you want to have even an outside chance of sorting out Japan, you need political consensus. But Japan is “light years” away from that. So while it is horrible to suggest something is inevitable, in Japan, hyperinflation, “the path of least resistance for all politicians”, probably is. “I just can’t see a way out.”

So, according to one of the most astute observers of Japan, either a depression or rampant hyperinflation is heading their way at some point in the next five to ten years. Based on the country’s debt dynamics, the state of the rest of the world and, as of this week, the fact that the domestic selling of government debt appears to have begun, I’d have to say I agree with him.

Casting my mind back to my years spent living in Japan in the late 1980s/early 1990s, two phrases leap to the front of my mind:

危ない : Abunai!

じゃあね。 : Ki o tsukete!

Google them.

Before I take my leave for another week, a quick word on Mario Draghi’s extraordinary comments in London this past week. If you haven’t seen them, you can watch him make them [HERE](#).

The ECB governor’s comments lit a fire under markets that has thus far burned for two sessions, dramatically lifting the euro in what

looked for all the world like a desperate short-covering rally, but did Draghi do anything more than make yet another assurance that will have nothing of substance behind it?

The forcefulness of the comments would ordinarily lead one to believe that he wasn’t making them off-the-cuff, but that he has the necessary backing from the Germans behind him to make it stick.

Ordinarily. This is Europe, however.

If that is NOT the case, then Super Mario just took every last remaining shred of credibility he had and torched them.

Late on Friday rumors swirled that Draghi would be meeting with Jens Wiedemann of the Bundesbank ahead of yet another European Summit this coming week and, for some reason, that seemed to inspire yet more confidence, but the time for jawboning is long since past and they need to do something concrete because, on August 20th, Greece is due to repay the ECB some €3.8 billion which, trust me, they absolutely cannot do. On that day, Europe will either have to write Greece another cheque (yes, a ‘cheque’—I’m English) for that sum or cut them off from the bailout crackpipe and set them loose. I know on which side of the bet I’ll be placing MY money.

Personally, I just don’t see how the Germans will agree to this and, even if they WERE to do so, it would hardly be in keeping with their modus operandi to allow Mario Draghi to all but make the announcement to the German electorate on their behalf. I have already started the



countdown to the inevitable denial by either Herr Schaeuble or Frau Merkel. Just like Christmas, you *know* it's coming.

Anyway, the main hope after last week's comments by the ECB's governor is that Draghi is close to getting the Germans to agree to giving the ESM a banking license which would enable it to borrow from the ECB in order to buy European government bonds and stabilize markets but, leaving aside for now the fact that the German Constitutional Court will have a HUGE say in any such measure being ratified and they are distinctly *indisposed* to it happening, what the markets are pinning their hopes on, in a nutshell, is this little scheme:

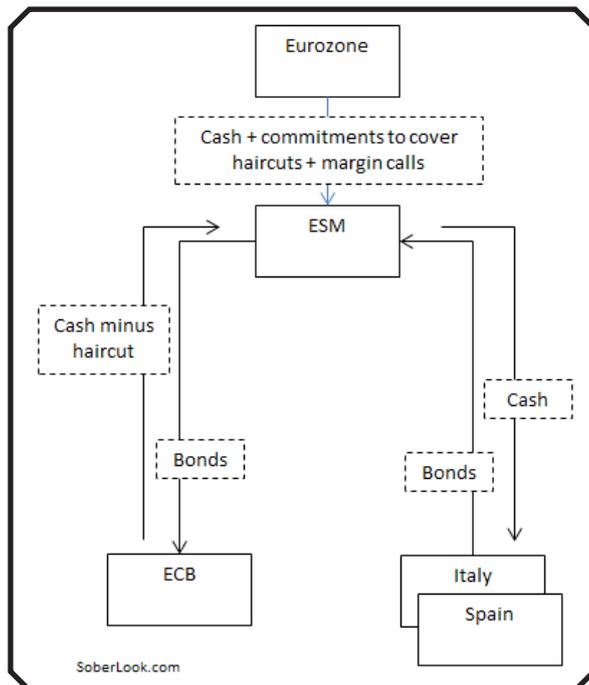
Europe creates a fund (the ESM) into which all the countries of the Eurozone—including those who are already bankrupt—are obliged to promise to contribute. The ESM is then allowed to lever the promises in that fund (not the cash; the promises) through borrowings from the ECB (an institution which is, incidentally, the single largest holder of the debt of those bankrupt peripheral European countries in the world) in order to buy yet more debt from those same peripheral, bankrupt European countries which will, in turn, lower borrowing costs and stabilize markets.

And THIS, ladies and gentlemen, is the plan that the Europeans have come up with after taking over two years to fix the problems they faced.

Want to know what the end of the road you've been kicking a can down looks like?

It looks like this.

OK... so this week we have all kinds of fun and games for you, beginning with European Commission President Barosso's first trip to Greece since the bailouts began which, sadly for him isn't a vacation. We profile a regular guest in these pages, Nigel Farage, see how China is making some major military moves and take a lok at the poor earnings season in the US that



SOURCE: SOBER LOOK

may be the harbinger of things to come.

The EU may criminalize market manipulation (this I've GOT to see), we return to Spain to see just how bad things are there and Open Europe explain why a full-scale bailout is impossible and we travel to the far-left of Germany's political spectrum (of all places) to hear an idea of how to save the Euro before heading to Mexico to see how the drug business is doing there and, of course, it's booming.

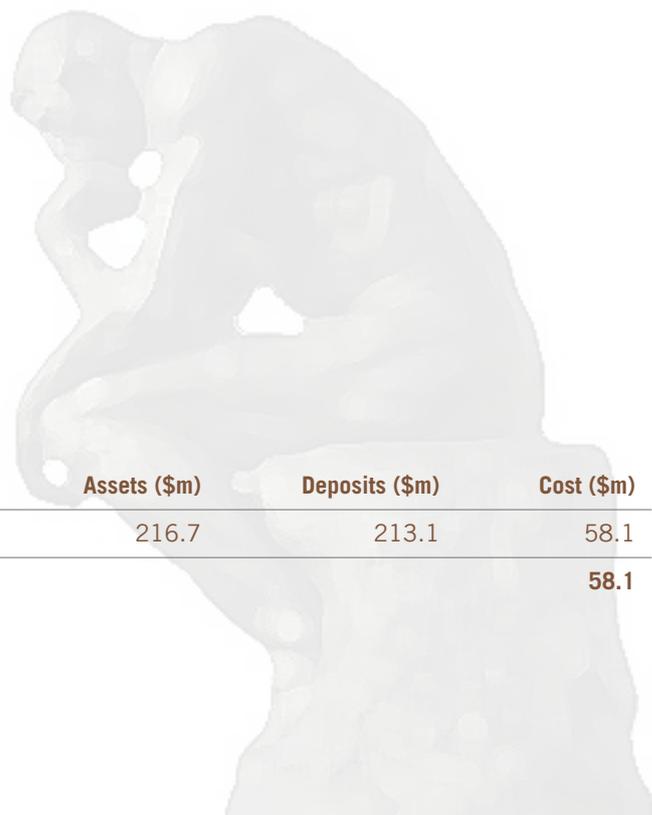
We have charts on bull and bear markets, real rates the Olympics and the Big Mac Index and, in our interview section, we watch a terrific smackdown between Maria Bartiromo and Barney Frank and hear from David Blanchflower, Don Coxe and a rather strange chap from Singapore.

Whatever next, I wonder?

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The Ginnie, Ginnie Banks

#	Bank	Assets (\$m)	Deposits (\$m)	Cost (\$m)
39	Jasper Banking Company, Jasper, GA	216.7	213.1	58.1
Total Cost to FDIC Deposit Insurance Fund				58.1

José Manuel Barroso has urged Greece to accelerate reforms after two years of foot-dragging if it wants to stay in the eurozone, saying Athens needed to show “results, results, results”.

The European Commission president, making his first visit to Greece since it sought assistance from the EU and International Monetary Fund in 2010 to avert a sovereign default, stressed that delays in implementing agreed measures had undermined the country’s credibility with its partners, adding: “Actions are more significant than words.”

“You must rebuild your country with our help and increase your competitiveness and the best way is within the euro, especially for the most vulnerable groups in society,” he said.

Mr Barroso’s strongly-worded message, delivered after a two-hour meeting with premier Antonis Samaras, came after leaders of the three-party coalition government endorsed in principle a €11.5bn package of spending cuts for 2013-14 that were agreed with creditors six months ago but kept on hold during two successive election campaigns.

Mr Samaras said his government was determined to push ahead with structural reforms, privatisation, fiscal consolidation and a crackdown on tax evasion. “We will cut public spending at every level from the prime minister’s office to the very last rung of the ladder,” he said.

Earlier Yannis Stournaras, finance minister, outlined the proposed cuts to the “troika” of officials from the Commission, IMF and European Central Bank. A ministry official said the next round of reforms had been discussed in full but no decisions had been taken. IMF officials declined to comment on the discussion.

“... The European Commission president...stressed that delays in implementing agreed measures had undermined the country’s credibility with its partners, adding: “Actions are more significant than words,”

The package still has to be fine-tuned by the political leaders, according to Fotis Kouvelis, head of the Democratic Left party, the junior coalition partner: “We haven’t finished, every single topic has to be examined...The economic conditions are very difficult but society can’t endure much more pain.”

Yet prolonged discussions of the new measures, along with the August summer break could stretch Athens’ public finances close to breaking point, putting the finance ministry under pressure to accelerate revenue collection by offering a partial amnesty in disputed tax cases and also crack down on widespread tax evasion in tourist centres.

The troika is not due to return until September to decide whether enough progress has been achieved to disburse a €31.2bn loan tranche from the country’s second bailout, already overdue since June.

★ ★ ★ FT / LINK

Beguiled by undersea oil and gas deposits and the weakness of fellow claimants to the Paracel Islands, China launched a naval offensive to seize the disputed archipelago. To justify its actions, Beijing pointed to history -- notably Ming Dynasty Adm. Zheng

He’s visits to the islands in the 15th century -- while touting its “indisputable sovereignty” over most of the South China Sea.

Chinese vessels carrying amphibious troops and operating under fighter cover from nearby Hainan Island engaged a South Vietnamese flotilla bereft of air

support. One Vietnamese destroyer escort lay at the bottom of the South China Sea following the daylong battle. China’s flag fluttered over the islands.

The skirmish was real -- and the date was Jan. 17, 1974.

History may not repeat itself exactly, but it sure rhymes. Back then, China exploited South Vietnamese weakness to seize the Paracels. Now, the People's Liberation Army (PLA) has announced plans to station a military garrison at Sansha, a newly founded city on the 0.8 square-mile Woody Island in the Paracels. Formally established on July 24, Sansha will act as China's administrative center for the Paracel and Spratly islands and adjoining waters.

This is the latest move in China's campaign to consolidate its claim to all waters and islands within a "nine-dashed line" that encloses most of the South China Sea, including large swaths of Southeast Asian countries' exclusive economic zones (EEZs). This month, a Chinese frigate ran aground in the Philippine EEZ after reportedly shooing away Filipino fishermen. That incident came on the heels of a late June announcement that PLA Navy units would commence "combat-ready patrols" of contested waters.

Beijing is reaching for its weapons once again. Unlike in 1974, however, Chinese leaders are doing so at a time when peacetime diplomacy seemingly offers them a good chance to prevail without fighting. I call it "small-stick diplomacy" -- gunboat diplomacy with no overt display of gunboats.

Chinese strategists take an extraordinarily broad view of sea power -- one that includes nonmilitary shipping. In 1974, propagandists portrayed the "Defensive War for the Paracels" (as the conflict is known in Chinese) as the triumph of a "people's navy," lavishly praising the fishermen

who had acted as a naval auxiliary. Fishing fleets can go places and do things to which rivals must respond or surrender their claims by default. Unarmed ships from coast-guard-like agencies constitute the next level. And the PLA Navy fleet backed by shore-based tactical aircraft, missiles,

missile-armed attack boats, and submarines represents the ultimate backstop.

*** FOREIGN POLICY / LINK

It's ugly out there and it could get worse.

Dismal U.S. corporate outlooks and worries about slower worldwide growth have pushed third-quarter earnings estimates into negative territory, which, if it came to pass, would be the first drop in three years.

Third-quarter earnings of Standard & Poor's 500 companies are now expected to fall 0.1 percent from a year ago, a sharp revision from the July 1 forecast of 3.1 percent growth, Thomson Reuters data showed on Thursday.

That would be the first decline in earnings since the third quarter of 2009, the data showed.

The more pessimistic view followed a string of disappointing results and cautious forecasts this week, most notably Apple, the world's biggest company by market value. On Thursday, United Technologies cut its full-year profit view to essentially unchanged from 2011's profit.

United Tech, along with many of the other companies offering more conservative views, cited slowing growth in China and lower demand from Europe as the primary reasons for its caution.

"We're looking at really slow growth," said Edward Hemmelgarn, founder and chief investment officer of Shaker Investments in Cleveland.

"... Things are being impacted by the slowdown in the economy worldwide. Any company that does any overseas business is citing the fact that the rise in the dollar, especially against the euro, has hurt their revenue and earnings"

"Things are being impacted by the slowdown in the economy worldwide. Any company that does any overseas business is citing the fact that the rise in the dollar, especially against the euro, has hurt their revenue and earnings."

That said, the stock market has managed to

hold together. The S&P 500 is still up about 8 percent for the year.

Some investors believe the slowing has been factored into stock prices, but the market has also been helped by a steady diet of monetary stimulus from the world's largest central banks.

Excluding Apple, third-quarter earnings are seen declining 0.7 percent, while revenue for the quarter is expected to fall 0.3 percent, the data showed.

The falling forecasts are not limited to a few sectors. Earnings estimates have fallen in every S&P 500 sector except financials, with technology among the worst.

Earnings in the tech sector are now expected to rise only 5.8 percent — less than half the forecast of 13.1 percent growth, according to an estimate at the start of the month, Thomson Reuters data showed....

While earnings performance has held up so far for the second quarter — with results in from about half of the S&P 500 companies — revenue has looked much gloomier.

Just 41 percent of companies have beaten revenue estimates, the lowest since the first quarter of 2009 and only the fourth time in the past 10 years that the beat rate was under 50 percent.

“We’re all hopeful there’s a fix around the horizon for the U.S. economy, but we also don’t really expect it in the short run.”

Revenue growth is expected to have increased just 1.2 percent for the second quarter, Thomson Reuters data showed.

☆☆☆ CNBC / LINK

If Spain were a patient, the mood in the hospital ward would be tense. Every attempt by local specialists advised by renowned European consultants to treat the sickness brings no more than temporary relief. Even more worrying, the relapses after each dose are happening sooner and sooner. Spain’s chances of avoiding intensive care—a full bail-out—are receding to near vanishing-point.

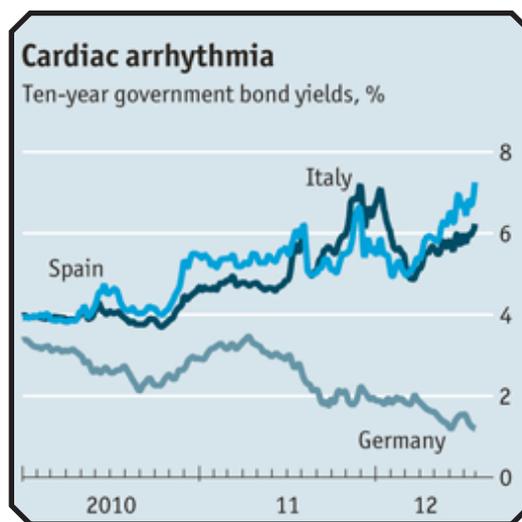
The symptoms of Spanish sickness are manifest in ten-year government bond yields touching 7.75% on July 25th; previous bail-outs of Greece, Ireland and Portugal occurred not long after rates had surpassed 7%. Even more perturbing, two-year yields also briefly went above

7%, in effect foreclosing the government’s ability to borrow at anything but short maturities.

No isolation ward is possible in the financially integrated euro area and Spain’s sickness quickly infected other countries. The Italian ten-year bond yield went above 6.5%, its highest since January. European stockmarkets retreated and Italy’s fell to a euro-era low. Sentiment was further soured by a report from

Moody’s, a ratings agency, saying that Germany, Luxembourg and the Netherlands might lose their cherished triple-A status. The prognosis was based in part on fears about the public-debt burden that northern countries might have to assume if bail-outs spread.

The market funk was the more troubling since a Spanish government with a lot going for it had appeared to be getting a grip. Public debt is rising fast, but at 69% of GDP last year was far lower than Italy’s 120%—and less even than Germany’s 81%. The budget deficit is high (8.9% of GDP in 2011), but only a week before the market panic Mariano Rajoy, the prime minister,



SOURCE: ECONOMIST

announced more tough austerity measures. And on July 20th European finance ministers sanctioned the first tranche of a partial bail-out worth up to €100 billion (\$121 billion) for Spanish banks.

So why are investors in such a cold sweat about Spain? One reason is that Mr Rajoy flunked hard choices at the outset, notably the cleansing of the banks. Despite a low starting-point for public debt, deficit overshoots have revealed insufficient central control over the 17 regions that are responsible for a big chunk of spending. Investors fret that more regions may follow Valencia, which applied for aid on July 20th. They are in any case sceptical that Spain can meet its targets for cutting the deficit in the teeth of a recession that is harsher than expected.

The biggest worry is Spain's external debt.

Spain ran hefty current-account deficits in the first decade of the euro. As a result, its liabilities to foreign investors exceeded the assets that its residents own abroad by 92% of GDP last year, among the highest in the euro area. The problem for Spain is that foreign capital has been fleeing over the past year. That has weakened the banks and the economy and left the Spanish government shunned by foreign investors for its own financing needs.

★ ★ ★ *ECONOMIST* / [LINK](#)

If there is one thing that has seemed to characterize the euro crisis, it is the lack of alternatives. The common currency bailout fund, for example, had to be vastly enlarged to prevent financial markets from plunging the common currency zone into chaos. Spain had to be given billions in aid to prevent its banks from collapsing and making the situation even worse. The list of instances in which European leaders have made moves they've called mandatory is long.

Such tunnel vision, however, hasn't exactly led to a swift end to the economic woes sweeping across the Continent. Increasing numbers of economists and politicians are predicting that Greece will soon collapse into uncontrolled bankruptcy -- exactly the scenario that Europe has been struggling to avoid for the last two years. The €100 billion Europe has pledged to Spanish banks has failed to stop rising interest rates on the country's sovereign bonds. And both Madrid and Rome may ultimately have to apply for a full bailout, which would stretch the euro backstop funds to their limits. It seems

time to start seriously considering whether there might be another way.

Two concepts are already out there, of course. There is the arch-liberal idea that, simply put, calls for allowing them all -- both the troubled banks and the deeply indebted countries -- to go broke. The result-

ing recession, of course, would be painful. But it is the necessary catharsis, proponents of this idea say, following past spending excesses.

Then there is the left-wing strategy, which calls for the immediate introduction of communitized European debt in the form of euro bonds in addition to a Continent-wide banking union. German taxpayers would become the primary backers of European debt, and a euro-zone-wide deposit guarantee would help ensure the stability of banks in the bloc. Other ideas tend to be a mixture of these two approaches.

Astoundingly, however, there really is a novel approach out there -- on the far left of the German political spectrum, no less. Its author, Sahra Wagenknecht, is the deputy floor leader for the Left Party in the Bundestag, Germany's parliament. Wagenknecht, now 43, joined the East German communist party SED in 1989 just a few months before the fall of the Berlin Wall. Until 2010, she was the most prominent member of the Communist Platform, the Marxist wing of the Left Party.

“... The biggest worry is Spain's external debt...its liabilities to foreign investors exceeded the assets that its residents own abroad by 92% of GDP last year, among the highest in the euro area.”

It is perhaps because of this somewhat spotty biography that her concept for solving the euro crisis has received so little attention. And, yet, it is an approach that can't be dismissed out of hand. Even more surprising, at its core, it is a surprisingly neo-liberal proposal.

First and foremost, Wagenknecht calls for a radical debt haircut. "The EU member states should resolve that all sovereign debt above a certain level will not be paid back," she writes. Wagenknecht proposes using 60 percent of a country's annual gross domestic product as the cutoff -- meaning that even Germany, with its debt load worth some 80 percent of GDP, would have to partially default.

Such a euro-zone-wide partial default, of course, would result in the bankruptcies of several European banks and insurance companies due to the amount of European sovereign bonds they carry on their balance sheets. "The financial industry has seriously underestimated the risks associated with sovereign bonds," Wagenknecht writes. Banks and insurance companies, she notes, provided euro-zone member states with fresh capital to the extent that their debt loads have now become unmanageable. Her plan, she adds, merely reflects that "risk and liability are linked in a market economy."

It is a sentence that could just as well have come from the party platform of the business-friendly Free Democrats on the center-right of the political spectrum. Indeed, the same could be said for large parts of Wagenknecht's approach to the euro crisis. But the Left Party politician has also included measures that would reduce the economic effects of a banking crash.

*** DER SPIEGEL / LINK

This Spring and early summer, as the desperate news from Brussels and Strasbourg escalated, and bailout followed crisis

summit followed austerity package, Ukip's poll ratings have proved as fecund as the inundated English countryside. Some soundings have placed Farage's party third in the UK, ahead of the Lib Dems, with a projected 13% of the national vote should an election be called. All have given Ukip at least a 6% rating, more than enough to make David Cameron's Conservatives, from whom they are taking most of their support, unelectable.

In discussing the implications of these figures, Farage, a former commodities trader, wears the look of a man who knows he has cornered the market for good news. The worse the political scenarios are painted in Europe, the stronger his party's stock grows. In a political circumstance in which all three main parties find ways to resist a promised referendum on Europe, which a majority of the population might arguably demand, his position can only strengthen. As he says, with no particular pleasure: "The current European story can go on a long time, barring a total disaster, because there is still such a will to prop up both the euro and the union. What will kill it in the end, in my view, will be the huge and growing differential between the French and German economies,

those at the core of the project. In the end, that will fracture, but it could take years and years of agony for everyone else."

Farage is astute enough to know that in the meantime he has a chance to seize his political moment. He is, however, also

acutely aware of the two main obstacles he faces in that ambition: a sense that his party is a single-issue pressure group (a fact he seeks to challenge by offering a range of policy ideas on everything from defence to education) and, more pressingly, the impression that it looks increasingly a one-man band (which other Ukip candidate can you name?).

This evening's event, he says, one of more than 1,000 such meetings he has addressed in his

"... His interventions into the generally anodyne flow of Euro-talk take aim at everything the union stands for and are generally delivered with gusto to a comic backdrop of urbane and disbelieving faces."

time in Ukip, is part of a campaign to overcome those issues. Last night, he had a sparky crowd of 200 in Eastleigh, near Portsmouth (potential by-election territory depending on the fate of Chris Huhne); Monday sees him in a social club in Dudley (where supporting British jobs for British workers will no doubt be a theme).

“It’s like Bob Dylan’s never-ending tour,” I suggest, though arguably Dylan might balk at sharing a bill with ventriloquist Roger De Courcey at Aylesbury rugby club, the scene of one of Farage’s livelier recent outings. “I had no idea it was going to be me and him,” Farage recalls. “But he was amazing. He did a stand-up routine and only then did he produce the bear. The bear gave him licence to say anything. And he did so!”

Even without a stuffed dummy on his knee it would be fair to say that Farage himself is not shy of forthright observation. His conversation is punctuated by occasional broadsides against the media in general and the BBC in particular, which he perceives as institutionally Europhiliac. Social media, and especially YouTube, have proved far more reliable allies in his quest to spread his insurgent message. One aspect of the generally ludicrous rules of debate at the European Parliament is that speeches are restricted to exactly a minute or two of rhetoric, a timeframe perfect for viral video. Farage, who leads a Eurosceptic group of 35 MEPs in Strasbourg, has become a master of the two-minute tirade.

His interventions into the generally anodyne flow of Eurotalk take aim at everything the union stands for and are generally delivered with gusto to a comic backdrop of urbane and disbelieving faces. Farage’s speeches have gained a strong following in countries across the continent where the emperor’s clothes are looking particularly translucent. As Ray points out from the driver’s seat: “No sooner has Nigel

sat down after a speech than they are on to me in Slovakia or wherever about the translation.” For a recent dismantling of Spain’s President Rajoy (“the most incompetent leader in all of Europe – and that is saying something”), Farage claims more than 1m YouTube hits in Spain alone. Though my search puts the figure at closer to 250,000, few other MEPs could claim comparable impact.

*** UK GUARDIAN / [LINK](#)

Manipulating international commodity benchmarks such as Brent crude oil would be a criminal offence, punishable by jail, under a set of reforms the EU Commission has proposed in response to the rigging of a major interest reference rate.

The Commission, the EU’s executive arm, announced on Wednesday plans to tighten supervision of financial benchmarks after a scandal involving interbank lending rate Libor, used to set prices for trillions of dollars of financial products.

The benchmarks the Commission wants to make more “reliable, transparent and credible” also include commodities such

as gold, cocoa, and Brent crude.

It would become an offence to transmit false or misleading information, provide “false or misleading inputs, or any action which manipulated the calculation of a benchmark”, if the European Parliament and 27 EU member states endorse the proposals.

Although not cited specifically, that could include false reporting to oil price reporting agencies like Platts, the leading assessor of benchmark prices for physical Brent and other cash oil markets.

The proposals could be agreed quickly, possibly by the end of the year, as amendments to exist-

“... For years, national regulators have turned a blind eye to trading practices, especially in over-the-counter deals, that have pushed up or pulled down reference prices such as Brent.”

ing proposals on regulating market abuse.

Under the draft proposals, traders on over-the-counter physical markets and the price assessment agencies -- who collect information on physical trades that help to set benchmark values -- stand to come under greater scrutiny.

Individual EU member states would still be allowed to decide what penalties to set for offences, but it would no longer be possible for them to take a soft stance.

Sanctions have to be "effective, proportionate and dissuasive", the Commission said.

For years, national regulators have turned a blind eye to trading practices, especially in over-the-counter deals, that have pushed up or pulled down reference prices such as Brent. The benchmark is used for pricing more than two-thirds of the world's crude oil.

"By imposing criminal sanctions for serious market abuse throughout the EU we send a clear message to deter potential offenders -- if you commit insider dealing or market manipulation you face jail and a criminal record," the EU commissioner for the internal market, Michel Barnier, said.

"These proposals will heighten market integrity, promote investor confidence and level the playing field in the internal market."

Traders have long argued there is no need for increased regulation of commodity dealing, which they say are rooted in the physical realities of supply and demand, in contrast to major financial markets.

"Physical oil trading is a complex issue," said a senior oil market source, who would only comment on condition of anonymity. "We don't want to have to justify every transaction to a regulator who doesn't understand the nuance of the business."

"... The regions will not make or break Spain financially, but their bail-out requests show how politically difficult it will be for Spain to rein in spending and reform."

Another senior oil executive drew a contrast between the oil trade and Libor.

"We're dealing with a liquid, real material. People do not get together to decide the price every day," he said. "And the price-reporting agencies quote a representative, fair value of what has been done."

*** REUTERS / LINK

A full-blown sovereign bail-out of Spain would be economically and politically impossible and cost up to €650bn (£510bn), an in-depth study has warned.

Leading think-tank Open Europe made the estimate based on the assumption the Spanish government would be forced out of the markets for three years because of its unsustainable borrowing costs, as happened in Greece, Ireland and Portugal.

Between now and mid-2015, Spain has funding needs of €542bn, with its banks requiring up to €100bn on top of this. The Spanish regions possibly require another €20bn, according to the study.

A Greek-style bail-out for Spain would bleed dry the eurozone's €500bn rescue fund, making an alternative solution essential.

Fears that Spain will need a sovereign bail-out mounted last week after the government's borrowing costs hit fresh highs and Catalonia followed Murcia and Valencia as a region which may be forced to turn to Madrid for assistance to meet its debt obligations.

"The regions will not make or break Spain financially, but their bail-out requests show how politically difficult it will be for Spain to rein in spending and reform," said Raoul Ruparel, head of economic research at Open Europe.

"The current bank rescue plan is clearly insufficient, while a full bail-out -- which could be in the region of €650bn -- is impossible."

Open Europe said the most likely scenario would involve a loan of around €155bn and more liquidity provision from the European Central Bank in Frankfurt.

“However, even that could, at best, only buy Spain six months to a year,” said Mr Ruparel.

Writing in *The Sunday Telegraph*, the chairman of Goldman Sachs Asset Management and one of the world’s leading economists, Jim O’Neill, said the power to resolve Spain’s problems rests with Germany and the ECB. “The solution lies beyond Spain and partly in Brussels, but probably much more in Frankfurt and also Berlin,” he said.

Mr O’Neill said that Germany and the central bank must decide whether they want the eurozone to stay as one or break up.

If Germany will not agree to pooling the region’s debt through the creation of eurobonds, perhaps “they should stop the project now”, he argued.

The ECB must be prepared to do more and come up with a vision for the future of the region, he warned.

“The ECB has to start asking itself more searching questions, and soon. How can it be an effective central bank if it can’t influence overall financial conditions in the euro area? The ECB needs to introduce new ideas.”

Mario Draghi, the ECB president, vowed on Thursday to do “whatever it takes” to save the euro. “Believe me, it will be enough,” he added, triggering market expectation of further policy intervention, although some analysts said it was more words without action.

Open Europe said that seven of Spain’s 17 regions have “unattainable” deficit reduction targets this year, as they are expected to achieve cuts worth more than 2.5pc of their gross domestic product.

The think tank said Britain might come under pressure to contribute to a Spanish bail-out because of the extent of UK bank exposure to Spain. “UK banking sector exposure to Spain totals €70bn – the fifth highest in the EU – while Spanish bank exposure to the UK stands at €343bn.

“In all likelihood, the case for a direct UK contribution to the Spanish bail-out will fall on deaf ears – and rightly so,” Mr Ruparel said.

*** UK DAILY TELEGRAPH / LINK

Mexico has 11 billionaires, according to *Forbes* magazine. Ten are often pictured smiling at charity dinners and other posh bunfights. One, Joaquín Guzmán

Loera, has a rather different mugshot. Wearing a cheap anorak, he is pictured shivering in the rain inside the concrete walls of a high-security prison. Mr Guzmán, who is better known by his nickname El Chapo, or “Shorty”, is one of Latin America’s most

successful exporters, having made perhaps \$1 billion as chief executive of the Sinaloa drug “cartel”. There haven’t been many photos of El Chapo since he escaped from jail in 2001, hidden in a laundry trolley.

Other billionaires look down on Mr Guzmán. But unlike some of the entrepreneurs on Mexico’s rich-list, he seems to have weathered the American recession rather well. Conditions in his hideout in the Sierra Madre may not be luxurious, but his fortune is believed to have remained intact despite the efforts of the imbeciles on Wall Street that brought the Mexican economy to its knees in 2009. Armed with no more than a phrasebook and some Pepto-Bismol, Schumpeter went to the desert to see what lessons Mexico’s narco-traffickers might offer to other businesses.

These have not been easy times for the cartels, thanks to a declining American appetite

“... The regions will not make or break Spain financially, but their bail-out requests show how politically difficult it will be for Spain to rein in spending and reform.”

for drugs. Encouragingly (at least from Mr Guzmán's point of view), more American youngsters are smoking cannabis, much of which is imported from Mexico. But cocaine, the more valuable product, has been going out of fashion. America cut its habit by about a quarter between 2006 and 2010, according to the UN, and the number of employees failing workplace cocaine tests fell by two-thirds.

Dwindling sales in el norte are not unique to the drugs business. America's imports of legal goods fell by more than a quarter in 2009, squeezing Mexican car factories as well as cocaine labs. But the cartels have been nimbler than legitimate businesses in switching to new markets.

Eight out of ten legal exports still go to America, not down much from nine out of ten at the turn of the century. The cocaine business, by contrast, has switched its attention to Europe, which gets through twice as much coke as it did at the end of the 1990s. The average Brit now buys more than the average American, albeit of lower quality. Mexican sellers are also making inroads in Australia, another promising market.

The drug industry's flexibility is partly due to its exemption from import duties. Whereas legitimate Mexican traders have free access to America and Canada via the North American Free-Trade Agreement (NAFTA), drug smugglers are granted tariff-free entry to every country in the world thanks to the Single Convention on Narcotic Drugs, which prohibits the regulation or taxation of their product. Pesky rules of origin, which prevent many Mexican manufacturers from selling goods in America, do not apply to Colombian cocaine processed in Mexico.

*** *ECONOMIST* / [LINK](#)

A powerful new voice for financial reform emerged this week – Sarah Bloom

Raskin, a governor of the Federal Reserve System. In a speech on Tuesday, she laid out a clear and compelling vision for why the financial system should focus on providing old-fashioned but essential intermediation between savers and borrowers in the nonfinancial sector.

Sadly, she also explained that she is a dissenting voice within the Board of Governors on an essential piece of financial reform, the Volcker Rule. Her colleagues, according to Ms. Raskin, supported a proposed rule that is weaker, i.e., more favorable to the banks; she voted against it in October.

At least on this dimension, financial reform is not fully on track.

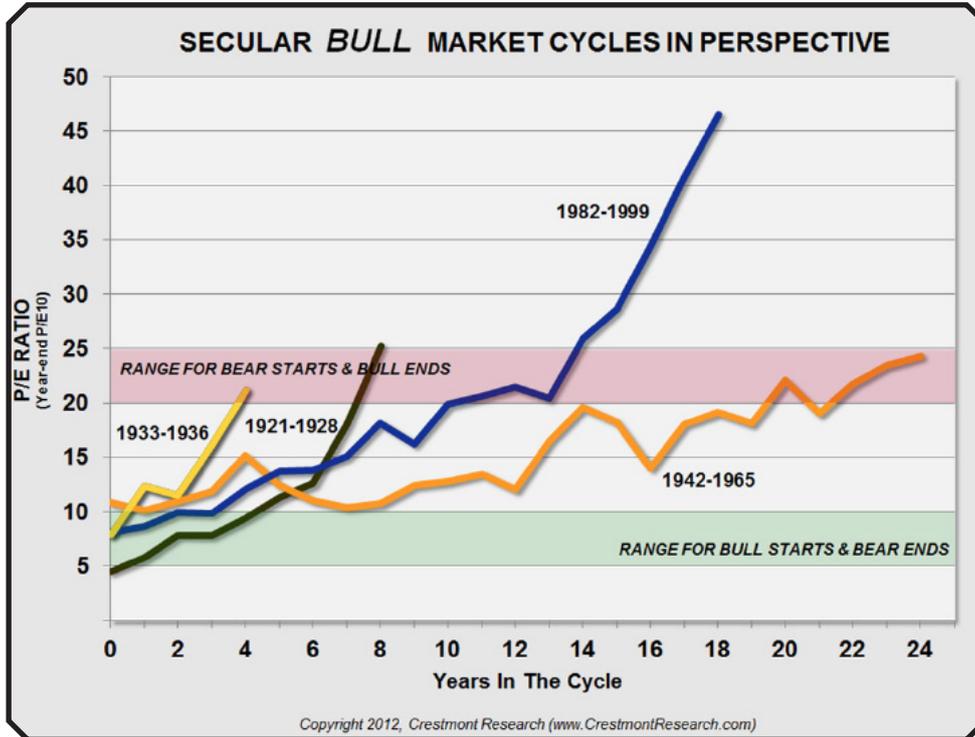
“... Eight out of ten legal exports still go to America, not down much from nine out of ten at the turn of the century. The cocaine business, by contrast, has switched its attention to Europe, which gets through twice as much coke as it did at the end of the 1990s” ”

Two years after the passage of the landmark Dodd-Frank financial reform legislation, you might imagine that the crucial detailed regulations would already be in place.

But, not so, at least with regard to the Volcker Rule, which is intended to limit the ability of big banks to make large “proprietary” bets. (Proprietary trading is jargon for speculation – betting on asset prices going up and down.)

The basic idea of this is simple and completely compelling. Paul A. Volcker, the former chairman of the Federal Reserve System, has stressed that this measure will help us move away from an arrangement in which the people who run big banks get the upside when they are lucky – and the rest of us are stuck with some enormous, awful bill when things go awry. Senators Jeff Merkley, Democrat of Oregon, and Carl Levin, Democrat of Michigan, fought long and hard to get meaningful provisions into the legislation. But these still need to be turned into regulations that must be followed.

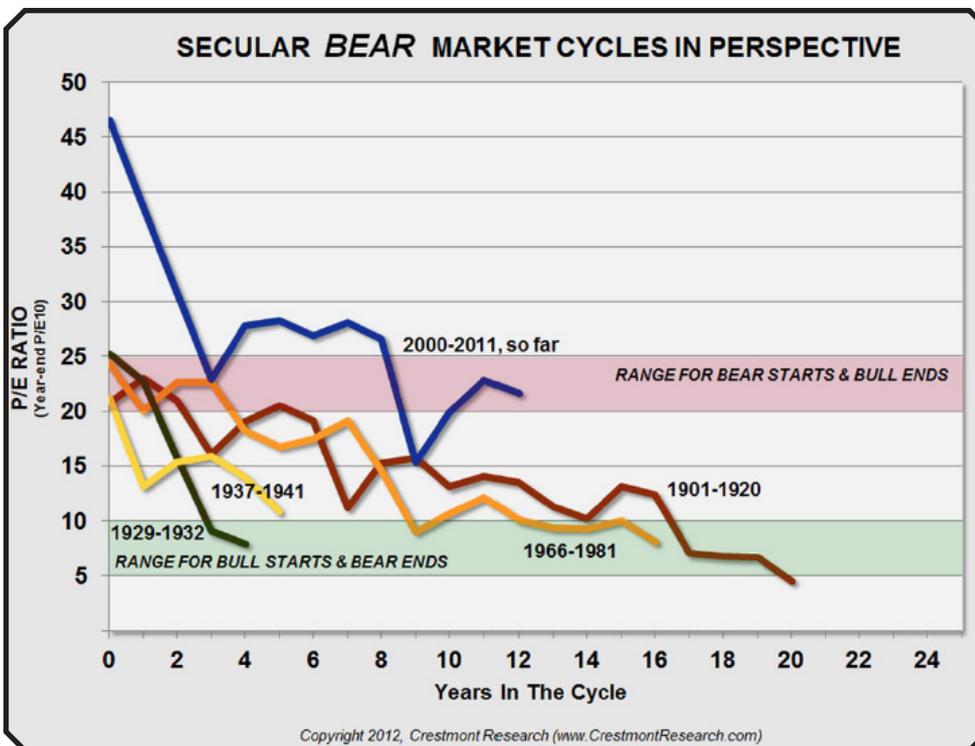
*** *SIMON JOHNSON* / [LINK](#)



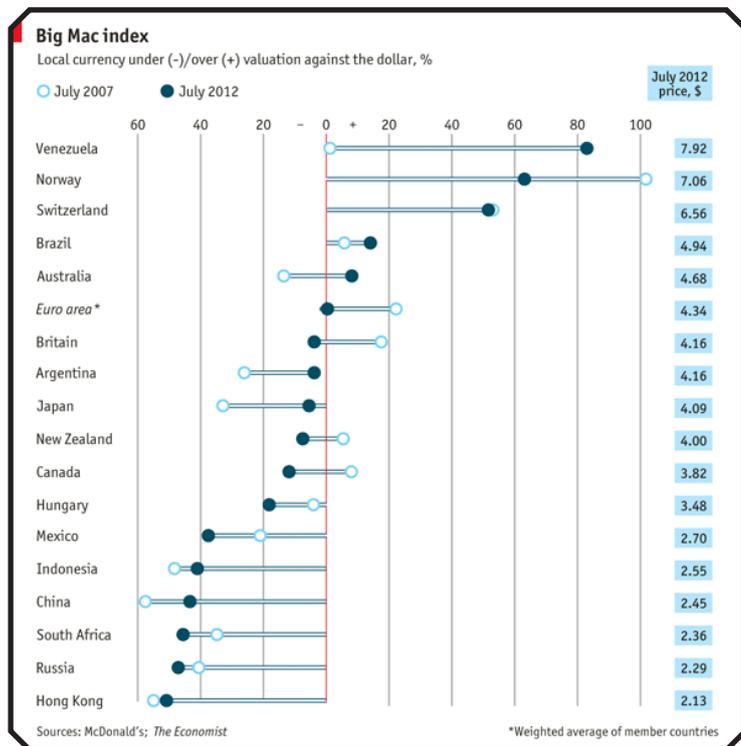
SOURCE: CRESTMONT RESEARCH

These two charts are as clear and concise as you could wish for when attempting to put some context around where we currently stand in the bull/bear market debate.

Ed Easterling's Crestmont Research published them and I would heartily recommend checking out their work at www.crestmontresearch.com



SOURCE: CRESTMONT RESEARCH



[CLICK TO ENLARGE](#)

early part of the crisis Australia's well-capitalised banks proved remarkably resilient; more recently, the currency has benefited from a spike in commodities prices, and from strong exports to China. By contrast, the British pound is now undervalued: its financial industry, a big chunk of the overall

This time round our Big Mac index looks at changes since global money-markets seized up in the summer of 2007. The index is based on the theory of purchasing-power parity, which says that exchange rates should eventually adjust to make the price of a basket of goods the same in each country. Our basket contains just one item: the Big Mac hamburger. It works by calculating the exchange rate that would leave a Big Mac costing the same in each country. For example: at current exchange rates a Big Mac, which sells for \$4.33 in America, costs just \$2.29 (75 roubles) in Russia, whereas in Brazil it sells for a sliver under \$5 (10 reais). So the dollar buys a lot of burger in Russia, signalling that the rouble is cheap and the real rather pricey. There have been some big shifts in fortune since the first rumblings of the crisis. The Venezuelan bolivar has moved from 1% to 83% overvalued thanks to high inflation and a static currency peg with the dollar which is creating a growing trade imbalance with America. The Australian dollar has moved from being 14% undervalued to 8% overvalued. In the

(the pound depreciated sharply in 2008) and its biggest export market, the euro zone, is in a dreadful mess.

*** [ECONOMIST / LINK](#)



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SOURCE: SOBER LOOK

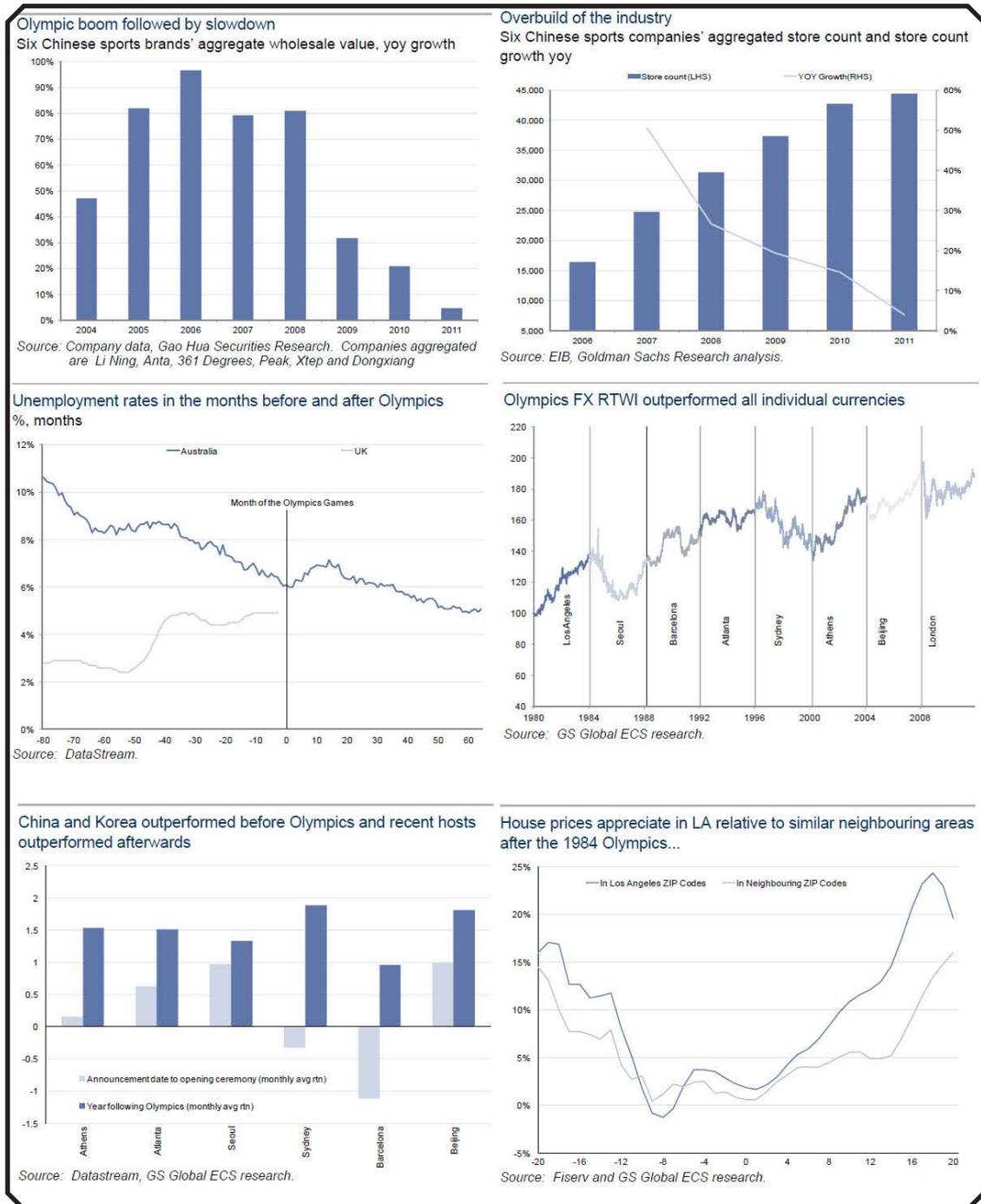
US real long-term yields are continuing to move deeper into negative territory. Zero coupon real yield is defined as the difference between zero coupon nominal treasury yield and zero coupon inflation swap rate.

The 10-year real yield touched a record low today of negative 82bp. Declines in inflation expectations simply have not kept up with the declines in nominal yields. The risk of holding long-term treasuries is increasing and if QE3 expectations are not fully materialized, treasury investors could be in trouble.

*** [SOBER LOOK / LINK](#)

In honor of today's commencement of the Olympics here are some entertaining charts that for once have nothing to do with an insolvent Europe or America, China's RAND() function, or much hated, non-magic based math, and instead have everything to do with the Olympics, and sport

Olympics: a blessing or a curse?



CLICK TO ENLARGE

SOURCE: GOLDMAN SACHS



[CLICK TO WATCH](#)

In the red corner, weighing 80 pounds, from New York City Maria “The Money Honey” Bartiroooooo

In the blue corner, weighing 250 pounds and putting the ‘mass’ in Massachusetts, “Iron” Barneeeey Fraaaaaank

Let’s get rrrrrready to rrrrrrumble....

Elsewhere, pick your poison:

David Banchflower, former member of the BoE MPC, who weighs in on Mario Draghi’s comens this week and, like me, is far more concerned about France than Greece, Don Coxe on the US drought, Japan’s problems, Europe’s deteriorating situation and his fears for the future (amongst other things), or, if you have 99c burning a hole in your pocket and want to spend it like a drunken sailor, you can listen to your humble scribe discussing Europe’s Day of Reckoning, the Libor scandal, the Fiscal Cliff and, of course, gold with Jim Puplava.



[CLICK TO WATCH](#)



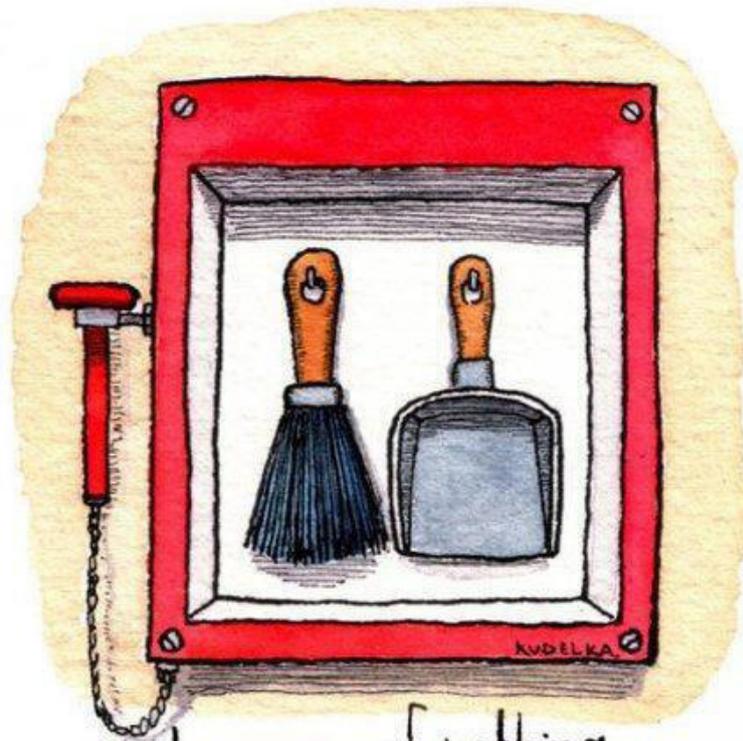
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[CLICK TO LISTEN](#)

and finally...

KEYNESIAN ECONOMICS



In case of nothing
to do, break glass and then
sweep up broken glass.

Hmmm...

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COMMENTS

© THINGS THAT MAKE YOU GO HMMM..... 2012

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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YouTube Video Channel: <http://www.youtube.com/user/GWTTMYGH>

California Investment Conference 2012 Presentation: 'Simplicity': [Part I](#) : [Part II](#)

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Grant

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